

Long-run growth: a critique of mainstream models and proposals for heterodox alternatives

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Abstract

We discuss the features and the relevance of macroeconomic models currently adopted for very long term projections (20 years or more). We argue that such models have an important policy role, as they provide the only anchor for expectations of public and private agents, in relation to slow-moving processes (migration, climatic change, etc.). All models currently in use are grounded in standard macroeconomic theory assuming optimizing behaviour of representative agents, and market clearing processes, with growth rates usually determined by productivity and catching-up processes. Since such models are very often used for advising governments in less-developed countries, where such theory is at odds with historical experience, there is a strong potential interest in alternative, more realistic, approaches.

We discuss possible alternatives where long-run growth is not determined by the supply side alone, and propose different macroeconomic closures for capacity, unemployment, and financial balances.

Keywords: long-run growth; expectations; capacity; reserve army of labor; financial balances.

JEL codes: E12; E16; F63; O11

*I wish to thank Any remaining errors are my sole responsibility. Corresponding address: zezza@unicas.it