

Review of the book on the dynamics of growth and debt, C. van Ewijk, 1991, 0198283466

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mize welfare or require producers to minimize profits. Thus the usefulness of the model seems questionable until one finds an efficient algorithm to select meaningful equilibria.

Chapter 5 (Romer) contains a survey paper on the relevance of increasing returns, nonrivalness and set-up costs to endogenous growth. Without such concepts, it is argued, endogenous growth can only be represented through artifacts. The chapter is well written and easily accessible. Chapter 6 (Guesnerie and Woodford) and chapter 11 (Grandmont and Laroque) report on attempts at resolving indeterminacy and/or instability of trajectories (particularly those generated in overlapping generations models). Basically, one is looking for realistic additional constraints that allow us to 'pin down' the model's trajectory. There are obviously many ways to do this; here, the idea is that prices at t depend, through the equilibrium conditions of the model, on (possibly wrong) expectations of prices at $t + 1$. The expectations are generated as functions of past expectations and past realizations (learning rules). The authors study the price dynamics of the equilibrium model thus extended.

Chapter 12 (Mas-Colell) gives a summary of the state of the art on the uniqueness of general equilibrium, starting from the well known Slutsky condition. For income distributed in fixed shares among consumers, the author finds, using an ingenious theorem by Mitiushin and Polterovitch on the ratio between curvature and slope of the utility function, that substitution effects may well dominate income effects so that uniqueness is not unlikely. However, when income distribution is endogenous, as it usually is, this result is of little help. Then, one must resort to the well known property that Cobb-Douglas utilities and production functions ensure uniqueness. It appears that if the model is sufficiently close to Cobb-Douglas 'in the average,' uniqueness can be maintained. Still, it seems that only modest progress has been made in this field over the last two decades. Local uniqueness for a sufficiently large neighbourhood around equilibrium may be all one can hope for.

Chapter 19 (Barnett, Geweke, and Wolfe) is particularly interesting for applied modelers. It provides a new flexible form for, say, the indirect utility function, expressed as a quadratic form in terms that are powers (one half, one-third, etc.) of normalized prices. Unlike many other forms like the translog, the specification globally satisfies all constraints from micro theory. The authors extensively describe how Bayesian methods can be applied to estimate this, with due restrictions on parameters.

In short, the book contains much interesting material that will surely be used a lot for reference. Its style is constructive and without any polemic. However, the value of the book as a whole is hardly more than that of the sum of its chapters. For the chapters discussed above one can envisage some overall framework encompassing them, but several other chapters seem to be there more in the name of pluralism than of coherence. This makes the book rather like a volume of *Econometrica* and who would dare to review such a volume in its totality?

Michiel A. Keyzer

Casper van Ewijk, *On the Dynamics of Growth and Debt*, Clarendon Press, Oxford, 1991. Pp. viii + 220. Dfl. 113,10

Among economists the use of the stability assumption is like a masonic handshake. The incrowd of 'freemasons' does not question this usage since it facilitates the identification

of the 'goodies' among the economists. The most prominent economist who rules out *a priori* unstable situations must be Paul Samuelson. Compare, *e.g.*, the following quotation from the horse's mouth (Samuelson, 1988):

'I, and for that matter Lloyd Metzler too, took it more or less as a dogma that our dynamic systems should be 'stable,' in the sense of having damped rather than anti-damped characteristic roots. (Our rationale for this was our perception that 'pump-priming' did not seem to work in the New Deal. To keep the system up, you had to keep pumping stimulus into it. That is how we read the evidence at the time). So, from 1937 on, I rejected the multiplier-accelerator explosive exponentials that kept thrusting themselves at me in my research notebooks.'

Since Samuelson is generally seen as an authority on the subject most economists follow his strategy. Caspar van Ewijk departs from this tradition and tries to look beyond stability assumptions. Stability can therefore be seen as the issue at stake in Van Ewijk's book. Excluding the introductory chapter and the conclusion, Van Ewijk examines in six chapters for a variety of economies how asset accumulation and economic growth are interrelated. Starting with a simple growth model and adding more and more complexities along the way, the reader is offered an insight into the subtleties of Post-Keynesian models of disequilibrium growth. Chapter 2 introduces the reader to theories of differential saving. In an elegant manner the theories of Pasinetti and Kaldor are reviewed. As a brief refresher, Pasinetti adheres to the proposition that differences in savings propensities should be related to social groups with different attitudes towards savings. Kaldor, however, rejected this idea and he has built his theory of saving on the idea that savings propensities differ per type of income, *viz.* the propensity to save out of profits is higher than that out of wage income. Van Ewijk then goes on to show what happens when one introduces a government sector into a model in which the views of Kaldor and Pasinetti are glued together. To cut a long story short, the steady state looks weird: it is either unstable or it is characterized by a net creditor position of the government and the disappearance of the capitalist class. This would certainly please James Buchanan and Karl Marx (strictly in that order). To mend this unsatisfactory picture that the Pasinetti-Kaldor model gives of the real world, Van Ewijk tries to build more sophisticated (and more complicated) models that are more in touch with the so-called real world. Chapters 3 and 4 illustrate this digression: a long-run growth model based on the microeconomics of a representative firm. Among Post-Keynesians it is thought that long-run investment behaviour can best be explained in terms of internal savings and the desired rate of indebtedness. In chapter 3 Van Ewijk introduces a firm that has no access to the equity market at all. It is shown that this fully equity-rationed firm faces a trade-off between growth and risk. The financial risk of a firm increases as the growth rate of production is pushed up. Furthermore, he refines this simple model by the introduction of the assumption that managers maximize the discounted sum of future sizes of the firm. He then goes on to show how the optimum growth rate is related to retained profits, the interest rate, risk and the managerial preferences towards these variables. Chapter 4 extends the analysis of chapter 3 by introducing the possibility of issuing new shares and paying attention to the adjustment process to attain the steady state. The reason for extending the model with this possibility is that market valuation of shares has a disciplining role with regard to managers. Thus, in the model one is able

to establish a unique optimum growth strategy for the firm depending on the preferences of managers and shareholders.

Chapter 5 is a nice excursion into issues of global and local stability. This chapter is essentially a technical translation of Leijonhufvud's concept of the corridor: within certain bounds of an equilibrium the economic system exhibits local stability, outside the corridor the stability of the system may break down.

Chapters 6 and 7 return to the long-run allocations that were examined in chapters 3 and 4. By paying attention to growth, income distribution and the financial positions of the government, firms and social classes Van Ewijk studies the stability of the system for a closed economy (chapter 6) and for a small open economy (chapter 7). For different public budgetary regimes, medium and long-run allocations are examined. Since analytical tractability is impossible this exercise is done for particular cases by numerically calculating the dynamics of growth and debt. Chapter 8 concludes with a summing up of the results obtained.

The acid test of any book is to close it (unexpectedly) after reading and to ask yourself the question 'What have I learnt?' In applying this test to Van Ewijk's book on the dynamics of growth and debt I could only recall one lesson, in spite of the variety of settings: Post-Keynesian growth models are dancing on a knife-edge case of stability and within certain bounds of an equilibrium allocation, the government can have a positive influence on the stability of the economy. The only caveat of the 'stories' of the dynamics of growth and debt is that one does not get an idea how general Van Ewijk's results are, since most of his models are so complex that he has to present simulations to show the properties of the models. A more serious problem the reader is left with is the modelling strategy. As the book closes with the final sentences one wonders why the author pursued the modelling strategy of rule-guided behaviour. The final sentence (p. 201) reads as follows: 'Thus not only does a change of the rules lead to a change of the system (Lucas, 1976), but also a change of the system must lead to a change of the rules.' If this is what Van Ewijk believes, why did he use rule-guided behaviour rather than maximizing behaviour as proposed by neo-classical economists? Granted the fact that neo-classical models can at times be equally ludicrous, the individual agents, who make plans according to their notion of optimality, are at least not as myopic or habit-prone as the Post-Keynesians implicitly believe them to be. But then again, who is right and who is wrong? Is Van Ewijk right in stressing that economic life can, at times, be unstable and that this instability of the economic system provides employment for a number of civil servants in their function as 'stabilizer.' And furthermore, is the neo-classical economist wrong in *assuming* that the economy is stable, thereby effectively doing away with the Keynesian stabilization argument of public intervention? I expect that both schools of economic thought are right and wrong in some respects. Each of the schools stresses some particular aspect of economic life and the modelling strategy would therefore seem to depend on the problem at hand. Van Ewijk presents the dynamics of growth and debt as *the* central issue. However, if stability is such a big issue one should present evidence of the inherent unstable character of certain variables. Unfortunately, Van Ewijk states his case and leaves it at that. Unfortunate, because on a more high-brow level, one can treat the multiple equilibria and phenomena of instability not as a nuisance but as a descriptive merit of the model. The role of history, as represented by initial conditions and expectations are, according to Paul Krugman (1991), the key to understanding uneven economic development. Rule-guided behaviour is in that respect too restrictive in modelling debt-default, tax structures, or international

trade developments. The stories about instability are therefore not finished. In present day economies, phenomena of instability can be found in the international debt crisis of 1982 or the German hyperinflation in the 1920s. Default of debt payments is one of the many solutions to an unstable debt development. Defaults could be more appropriately modelled by invoking some of the concepts used in game theory. One can, of course, defend Van Ewijk's approach by arguing that economic choices are implicitly included by the rules. In the short run I can imagine that fixed patterns of behaviour are a realistic short-cut. For the long run this strategy can lead to false stories. Besides, one can build general models that incorporate the fixed rules. For instance, fixed saving propensities are imaginable in standard neo-classical models of small open economies (provided the interest rate equals the rate of time preference). In modelling *long-run* allocations, one needs more credible models than Van Ewijk provides.

I will end this review with the classical two 'hands' of the economist. On the one hand, Van Ewijk's book is an excellent book in which he shows in some technically refined strikes what a Post-Keynesian world may look like. He goes to great pains to illustrate and calculate particular complex cases. On the other hand, he states his case(s) in a rather arid manner and the empirical relevance of studying Post-Keynesian models is not convincing. The missing element in the treatment of the subject is the artist's overview while painting. Once in a while, one has to step back to see what one has created. Painting a picture with one's nose close to the canvas has the advantage that details may be perfect but stepping back one may be tempted to exclaim 'My God, I have created a monster!' Without any doubt, Van Ewijk has *not* created a monster but the book does not exactly excel in its relativistic tone of voice. Still, if this book is an indication of his academic roots, one may have rising expectations about the equilibrium he will attain.

Hendrik P. van Dalen

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J.A.H. de Beaufort Wijnholds, L.H. Hoogduin, P.M. Mallekoote, J. de Haan and A.A.T. Wesseling (eds.), *Monetaire diagnose en therapie; een selectie uit het werk van prof. dr. G.A. Kessler, oud-directeur van De Nederlandsche Bank* (Monetary Diagnosis and Therapy; A Selection from the Work of Professor G.A. Kessler, Former Director of the Netherlands Bank) NIBE, Amsterdam, 1991. Pp. 286. Dfl. 55,-

When Professor G.A. Kessler retired in 1981 from his post as director of the Netherlands Bank, he was presented a *Festschrift*, which underlined his importance as one of