**Economic Growth & Development**

Theories, Criticisms and an “Alternative” Growth Model

**Hasan Gürak**

**Peter Lang Int. Publisher**

## 

# Foreword

Knowledge is increased through observation, research, experiment and mental effort. Science and technology can only make progress through “new ideas” e.g., “new knowledge” developed by the free mental powers of human beings.

A person (a researcher) seeking for new knowledge is not only responsible for human beings but also for all creatures and for nature itself. Her/his new ideas are expected to affect the course of society’s present and future. Therefore, a researcher makes her/his best contribution by posing questions and by completing her/his work by providing answers that the researcher considers to be correct. The recipients of this new knowledge have to be open-minded, tolerant and unbiased.

New ideas in the social sciences, naturally including economics, have to fulfill four major conditions. They must be:

1. Logical.
2. Consistent.
3. Explanatory.
4. Testable.

There are many economic theories containing all of the above features; and most of them belong to the mainstream ideology, i.e. the neoclassical theories/models. As a matter of fact, at present, almost all economic theories/models are of Anglo-Saxon origin. Yet, these dominant economic theories/models are, to a large extent, a part of a “grand parable”.

They are no doubt logical, consistent and even explanatory in many ways, but when tested for their relevance to real economic situations, they fail to correctly explain the normal economic transactions. In other words, those theories/models which are dominant today only are successful in explaining “a fictional world” and “fictional economic relationships” which are largely based upon unrealistic assumptions. The assumptions of “perfect competition” alone are sufficient to reject the neoclassical theories/models as highly fictitious and unrealistic. One does not have to be an expert in the field of economics to realize these shortcomings.

It is high time to produce “new and alternative” theories and models to replace the “parables” of these mainstream ideologies. I hope that this book will appeal to open minded economists the world over, as a constructive contribution for the further development of “new economic ideas”.

Prof. Dr. Hasan Gürak

2014

Contents

[Foreword iii](#_Toc398809326)

[Introductıon 1](#_Toc398809327)

[The Purpose & Scope of this Study 2](#_Toc398809328)

[Which criteria can we use as A comparison? 4](#_Toc398809329)

[CHAPTER-1 Growth process worldwide 7](#_Toc398809331)

[All About growth 12](#_Toc398809332)

[“Savings = Investment” Paradox 14](#_Toc398809333)

[On added-value criterion 16](#_Toc398809334)

[The Relationship between the Laborer – Technological Progress & Growth 17](#_Toc398809335)

[What role does investment play in regard to technology and long-run growth? 19](#_Toc398809336)

[Access to and the use of technology 20](#_Toc398809337)

[Laborer, Knowledge & Growth 21](#_Toc398809338)

[Qualified labor or “Human capital” 22](#_Toc398809339)

[Creative labor and growth 24](#_Toc398809340)

[Unqualified labor 24](#_Toc398809341)

[Technological progress and the global economy 24](#_Toc398809342)

[Is it possible to measure the "Qualification Level of the Laborer" accurately? 25](#_Toc398809343)

[Other factors having an impact on growth 26](#_Toc398809344)

[The institutional and cultural infrastructure 27](#_Toc398809345)

[Competitive conditions 27](#_Toc398809346)

[Economic and political stability 28](#_Toc398809347)

[Financing the investments 28](#_Toc398809348)

[Natural resources 28](#_Toc398809349)

[Chapter–2](#_Toc398809350) [Basic concepts related to growth 29](#_Toc398809351)

[Productivity- (Productivity) Growth - Qualified Laborer - Technological Progress 29](#_Toc398809352)

[Productivity (V) 31](#_Toc398809353)

[Measuring productivity: a static analysis 32](#_Toc398809354)

[The Quantitative Analysis 32](#_Toc398809355)

[Measuring qualitative differences 33](#_Toc398809356)

[Value Analysis of “Productivity” 33](#_Toc398809357)

[An alternative value measurement 34](#_Toc398809358)

[Optimum Productivity 35](#_Toc398809359)

[“(Productivity) Growth” 35](#_Toc398809360)

[Quantitative productivity growth 35](#_Toc398809361)

[Partial factor productivity growth 36](#_Toc398809362)

[Added-Value based productivity growth 37](#_Toc398809363)

[Is a “value” criterion a perfect choice? 37](#_Toc398809364)

["New products" and growth 38](#_Toc398809365)

[**An Inter-Country Productivity Comparison** 38](#_Toc398809366)

[Concluding Remarks 39](#_Toc398809367)

[Chapter – 3](#_Toc398809368) [Growth theories: Historical perspeciIve 41](#_Toc398809369)

[A. Smith 44](#_Toc398809370)

[Ricardo 47](#_Toc398809371)

[Marx 49](#_Toc398809372)

[Marshall 51](#_Toc398809373)

[Keynes 53](#_Toc398809374)

[Harrod-Domar 56](#_Toc398809375)

[Schumpeter 57](#_Toc398809376)

[Overview 58](#_Toc398809377)

[Chapter – 4](#_Toc398809378) [New Approaches to growth theory 61](#_Toc398809379)

[Neoclassical Growth Theory-1: Pre-Solow 62](#_Toc398809380)

[Neoclassical Growth Theory-2: Solow & After 67](#_Toc398809381)

[Criticism of Solow's model and the TFP approach 70](#_Toc398809382)

[TFP & Long-term growth 71](#_Toc398809383)

[TFP and growth in Turkey 75](#_Toc398809384)

["Endogenous" growth models 76](#_Toc398809385)

[Lucas: the Mechanical model of growth 77](#_Toc398809386)

[The institutional school 84](#_Toc398809387)

[P. Romer: An Endogenous Growth Theory 88](#_Toc398809388)

[R.J. Barro on Growth 97](#_Toc398809389)

[Aghion-Howitt: Creative Destruction 101](#_Toc398809390)

[Sectors and production 103](#_Toc398809391)

[Grossman-Helpman: Foreign trade and growth 105](#_Toc398809392)

[G. Mankiw 111](#_Toc398809393)

[Middle-Income-Trap: End of Growth? 115](#_Toc398809394)

[In Conclusion 117](#_Toc398809395)

[Concludıng remarks for the chapter 119](#_Toc398809396)

[Chapter-5](#_Toc398809397) [An Alternatıve Growth Model 121](#_Toc398809398)

[Introduction 121](#_Toc398809399)

[The Purpose 122](#_Toc398809400)

[“Productive” Factors & “Production” Factors or Inputs 124](#_Toc398809401)

[Productive factors 124](#_Toc398809402)

[Factors (Inputs) of Production 124](#_Toc398809403)

[“Productive” Factors and Value-Creation 125](#_Toc398809404)

[The Genesis of Growth 125](#_Toc398809405)

[Some basic assumptions 128](#_Toc398809406)

[An Attempt at an Alternative Growth Model 128](#_Toc398809407)

[Initial Case: A Simple “Stationary” Output, Exchange & Distribution Model 129](#_Toc398809408)

[A simple “short-run” growth model: 1 130](#_Toc398809409)

[Assuming access to a “new“ market 131](#_Toc398809410)

[A simple “long-run” growth model: 2 132](#_Toc398809411)

[“New Markets” for the “New Product” 133](#_Toc398809412)

[Conclusions 137](#_Toc398809413)

[A note on Labor-Innovation & Value-Price Theory 138](#_Toc398809414)

[CHAPTER-6](#_Toc398809415) [Short run growth in the Real Economy 139](#_Toc398809416)

[1- Short-run Growth: A “Given” Technology 140](#_Toc398809417)

[1-a) EE and/or TE growth 140](#_Toc398809418)

[1-b) Extended production for new markets 142](#_Toc398809419)

[Eight methods to increase short-run growth 142](#_Toc398809420)

[Chapter-7](#_Toc398809421) [Long-run groth in the Real Economy 151](#_Toc398809422)

[Technological (macro) productivity growth 151](#_Toc398809423)

[a) A “Given” Product, but a “New” Production Method 152](#_Toc398809424)

[b-) New products 154](#_Toc398809425)

[Growth: Reconsidered - Both in the Short- & Long-run 156](#_Toc398809426)

[The Concrete effects of innovations 156](#_Toc398809427)

[Given product – new method of production 157](#_Toc398809428)

[Technological productivity growth 158](#_Toc398809429)

[“Given” product – “new” production process 158](#_Toc398809430)

[New product 163](#_Toc398809431)

[New product and functional income distribution 164](#_Toc398809432)

[New product, “monopoly” and profit rate 165](#_Toc398809433)

[Innovations, Growth and Price 166](#_Toc398809434)

[A “Given product” but a "new production process” 166](#_Toc398809435)

["New” product and “new” price 167](#_Toc398809436)

[Other factors influencing price level 167](#_Toc398809437)

[Technology Transfer & Long-run Growth 168](#_Toc398809438)

[Measures to be taken 169](#_Toc398809439)

[Major costs of Technology Transfer through FDIs 171](#_Toc398809440)

[Conclusion 172](#_Toc398809441)

[Chapter-8](#_Toc398809442) [Growth & the service sector 175](#_Toc398809443)

[“Productivity” & “productivity growth” in the Services Sector 176](#_Toc398809444)

[“Productivity“ in the services sector 177](#_Toc398809445)

[“Productivity growth” in the services sector 178](#_Toc398809446)

[“New” types of services and long-run growth 178](#_Toc398809447)

[Competition in the services sector 179](#_Toc398809448)

[Global (international) trade in the Services sector 180](#_Toc398809449)

[CHAPTER-9](#_Toc398809450)  [Growth & Income Distribution 183](#_Toc398809451)

[Functional IncomeDistribution 183](#_Toc398809452)

[An Ideal Income Distribution 184](#_Toc398809453)

[Pareto optimum 184](#_Toc398809454)

[Optimum Functional Income Distribution and Growth 185](#_Toc398809455)

[Initial case: Functional income distribution: with a “given” technology 187](#_Toc398809456)

[1- “Efficiency Growth” & Income Distribution 188](#_Toc398809457)

[2- “Innovation” & Income Distribution 189](#_Toc398809458)

[Wage rise in the long-run & its impact on income distribution 192](#_Toc398809459)

[Technological Imperfections & Global Income Distribution 193](#_Toc398809460)

[“Technology-intensive” & “labor-intensive” methods of production 193](#_Toc398809461)

[Concluding Remarks 195](#_Toc398809462)

[chapter-10](#_Toc398809463) [Growth or Development? 197](#_Toc398809464)

[Growth 199](#_Toc398809465)

[Development 199](#_Toc398809466)

[**Elements of the development theory** 200](#_Toc398809467)

[**Development Economics** 202](#_Toc398809468)

[CHAPTER-11](#_Toc398809469)  [Epilogue & a Suggestion 205](#_Toc398809470)

[Developed Countries & Long-run Growth 207](#_Toc398809471)

[LDCs & Long-run Growth 207](#_Toc398809472)

[Producing new technologies 207](#_Toc398809473)

[More efficient use of technologies 208](#_Toc398809474)

[Efficient use of political, institutional & cultural framework 208](#_Toc398809475)

[A Suggestion to Boost Global Competition 209](#_Toc398809476)

[Firms that only “produce technology“ 210](#_Toc398809477)

[Is “Unlimited Growth” Desirable? 213](#_Toc398809478)

[Bibliography 215](#_Toc398809479)