STABILITY IN KEYNESIAN AND NEOCLASSICAL GROWTH MODELS: A COMMENT ON KUIPERS

BY

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1 INTRODUCTION

In a recent article, Kuipers1 dealt with the problem of stability in a model of disequilibrium growth. His article is in the tradition of disequilibrium analysis of Clower, Barro and Grossman and Malinvaud.2 The main aim of Kuipers' article is to extend disequilibrium analysis, which is generally confined to short-run problems, to the medium- and the long run. This is an immense task. In order to reduce the complexity of the real dynamics, Kuipers splits his analysis in a Marshallian way into three parts corresponding to different periods of time: the short run, the medium run and the long run. Each period is characterized by specific economic processes. In the short-run, capacity, prices (except interest) and expectations are fixed. In the medium-run, capacity and prices are endogenous, but expectations of prices are still assumed to be given and constant. In the long run, expectations of prices, which are especially relevant to the choice of technique, become endogenous too. In all periods, the possibility of non-market-clearing prices exists and the actual volume of transactions is assumed to be equal to the minimum of

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demand and supply. Despite the Marshallian simplification, the analysis is still so complex that Kuipers has to concentrate on some specific cases. In the medium run, the dynamic characteristics of a Harrodian variant of his model are analysed. In the long run, the analysis focuses on the stability of a neoclassical variant in the event of a downward disturbance.

From these analyses Kuipers derives the following conclusions:
1. in the short run with rigid prices the neoclassical conditions for maximum profit and minimum cost generally are not met;
2. in the medium run Harrod's warranted growth path is presumably stable;
3. in the long run the neoclassical equilibrium growth path is stable in the event of disturbances in a downward direction.

On the basis of these results, Kuipers concludes that 'Keynesian growth theory is a theory of the medium term and the neo-classical growth theory is one of the long term.' Thus, according to Kuipers, Keynesian processes may dominate in the medium run, but eventually the economy is stable and tends to a 'Walrassian growth equilibrium.' From this point onwards the neoclassical theory comes into its own again: Prices will be market-clearing prices. Income distribution will be determined by the marginal productivities of labour and capital derived from a well-behaved (Cobb-Douglas) production function.

Kuipers' analysis may be seen as an attempt to catch both Keynesian and neoclassical growth theories within the same general framework. The basic features of this framework are essentially neoclassical. The behaviour of entrepreneurs and consumers is derived from the proposition of maximization of profit and utility under the constraints of well-behaved production and utility functions. In Kuipers' analysis the crucial difference between the Keynesian and neoclassical theories concerns the flexibility of prices and expectations. In the neoclassical long run, prices are flexible and expectations with respect to demand are always fulfilled. The Keynesian medium run variant is obtained by assuming that expectations of prices and of utilization-rate are rigid. In this conception Keynesian growth theory can be seen as a special case of a general neoclassical theory of economic dynamics.

In this comment we will not deal with the plausibility of the choice-theoretic framework used by Kuipers. Nor will we deal with the question of whether a unique Walrasian growth equilibrium exists or with the problems related to the concept of capital in neoclassical theories. This comment will be fully concentrated on the dynamic characteristics of Kuipers' growth