

# Notes

## Introduction

1. A highly recommended recent study is Peter Gowan's *The Global Gamble* (1999).
2. The disastrous consequences of these types of economic policies were most evident in Russia in the early 1990s. Yeltsin and his economic chief, Gaidar, responding to advice from the IMF and Western economists, introduced "shock therapy" which involved price liberalization and the removal of subsidies to industries, which in turn, triggered wholesale bankruptcies and a growing army of unemployed. The end result was mass unemployment and a collapse in the standard of living. At the same time, the privatization of public enterprises gave rise to a small class of overnight billionaires who emerged from the ranks of the old nomenclature. An upsurge in hyperinflation wiped out personal savings and reduced purchasing power by a half. While income rose by 600 percent in the first half of 1992, consumer prices increased by almost twice that rate. Indeed, the period of "shock therapy" represented a phase of unprecedented economic collapse from which Russia has yet to recover. Global market pressures – made explicit by the tough IMF program – have threatened to reduce most of the country to a Third World status based primarily on extractive and agrarian industries. By the mid-1990s, the Russian GDP was slightly larger than that of Belgium.
3. The onset of a deflationary spiral was particularly evident in Japan in the 1990s.

## 1 Accumulation and Crisis: Marxian Controversies

1. The simplified two-sector Lewis model was developed in the 1950s in which surplus labor in the traditional agricultural sector migrates to the higher wage, higher productivity industrial sector. The rate at which this process occurs is determined by the rate of industrial development and capital accumulation in the modern sector. Lewis assumes that all profits in the modern sector are reinvested and that wages in this sector are generally higher due to higher productivity growth (Lewis, 1956).
2. The law of increasing returns is explored in more detail in Chapter 2.
3. The Marxian concept of equilibrium is quite different from the Walrasian version of general equilibrium. It refers to the *interrelatedness* of the different sectors of a closed economy and has its intellectual roots in the classical economists (Smith and Ricardo) as well as in the original Physiocratic treatment of Quesnay's *Tableau Economique* (Junankar, 1982, p. 9).

## 2 Circular and Cumulative Causation

1. Appendix 2A provides a very simple elaboration of the Solow/Swan growth accounting model.

2. The original general equilibrium models were grounded on the mathematical principles of Newtonian mechanics.
3. Endogenous growth theories, unlike the Keynesian schema, generally support the neoclassical linear, causal relation between saving and investment. The causation runs from saving to investment.
4. The theoretical difficulties associated with the existence of heterogeneous capital goods have been a serious issue of contention in the very construct of an aggregate production function. The “capital controversies” of the 1950s and 1960s highlighted some of these logical inconsistencies (Pasinetti & Scazzieri, 1990). The limited scope of this study precludes a more detailed treatment of these issues.
5. The Kaleckian concept of the “degree of monopoly” will be explored in more detail in Chapter 3.
6. A more detailed treatment of innovation and technical change is elaborated in Chapter 4.
7. Some excellent studies of the Institutional and Evolutionary strands of economic thought are provided by Hodgson (1999, 2001).
8. Harrod’s original formula was that assuming exports ( $E$ ) of a particular country are given exogenously and imports are a simple linear function of income ( $M = mY$ , with  $0 < m < 1$ ), and there are no other “leakages” from income ( $Y$ ), so that

$$Y = \frac{1}{1-r} E \text{ (the general multiplier formula)}$$

where  $1 - r = m$ , so that  $E = mY$ , or  $E = M$ .

9. Thirwall developed a “dynamized version” of the Harrod multiplier:

$$\alpha y = \alpha e / \beta$$

where  $\alpha y$  and  $\alpha e$  are the logarithmic growth rates of income and exports respectively, and  $\beta$  represents the income elasticity of demand for imports.

### 3 Overaccumulation and Crisis

1. According to Kalecki, capitalists earn what they spend and workers spend what they earn.

### 4 Long Cycles of Growth and Stagnation?

1. Appendix 4A provides a more detailed elaboration of Harrod’s trade cycle theory.

### 6 The Onset of “Eurosclerosis”

1. An excellent critique of the Maastricht fiscal criteria is elaborated by Pasinetti (1998, 1998a).

## 7 The US–Japanese Axis: Unity or Rivalry?

1. The product-cycle type of development was first formulated by Japanese economist Akamatsu in the early 1940s and has become known as the “flying geese” pattern of industrialization (Yamazawa, 1990).
2. During the 1980s, the price of real estate rose by a factor of 5. At their respective peaks, the total estimated value of Japanese land was 60 percent of world property values, while Japanese equities accounted for almost 40 percent of world stock market values (Linge, 1997, p. 62).
3. These coordinated central bank operations triggered the most recent financial crisis in October 1998 with the collapse of the “yen-carry” trade. Hedge funds had borrowed at the low Japanese interest rate in order to make a profit through arbitrage by lending at the higher interest rates in Europe and the United States. However, after the Russian default in August 1998, most of these hedge funds were caught short and were forced to cover their exposure in Russia by deleveraging their accumulated yen borrowings. In October 1998, the yen soared from 135 to 115 to the dollar, which wiped out most of the profits in the yen-carry trade and precipitated the near collapse of the Long-Term Capital Management hedge fund. These events led to a massive rescue operation by the US Federal Reserve in concert with private investors in order to avoid a global credit crunch.

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