Neoclassical Growth Accounting

is a Mug's Game!

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A brief history of growth accounting

- Abramovitz (1956): “a measure of our ignorance”
- Solow (1957): capital accumulation explains only 20 percent of long-run growth per person
- Hard work over decades raised this to 80+ percent
- **Measurement in competitive, CRS framework**
- Let’s put the old and new estimates into a neoclassical (Solow, Ramsey) growth model
- Do we understand the determinants of long-run growth better than in 1957?

Growth accounting and the sources of growth

- In 1957: 100 percent of all growth from the residual
  - i.e., from forces about which we are ignorant
- In 2012: 100 percent of all growth from the residual
  - smaller direct effect but larger indirect effect
- In a neoclassical framework (which almost all growth accounting assumes), the work of decades has told us **nothing** about the deep sources of growth
- And we could have predicted this before doing the work—it’s inherent in the neoclassical framework

Abandon the neoclassical straitjacket

- Ask how a residual can arise from economic forces instead of trying to minimize its size
- Why does the social benefit of “capital” accumulation exceed the private benefits?
- The study of externalities and imperfect competition needs to be at the centre of growth accounting, not at the fringes