Structuralist macroeconomics: methodology and implications for economic development

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Outline of the presentation

• What structuralism means

• Peculiar features of structuralist macroeconomics

• Structuralist macroeconomics and current hot topics in developing countries
1. What structuralism means

The term “structuralism” recalls us something *deep, profound*, well rooted in the behavior of people and communities in several aspects of human life (we can find structuralist thinkers in anthropology, sociology, linguistic...on top of economics), something which is perhaps hard to change...

Gibson (2003) uses the term *wholeness* in order to define a specific feature of structuralism, regardless the specific field of analysis you may take into account:

• Structuralist theory pays attention to the way human behavior, economic actions and the performance of an economy as a whole depend on social norms, social constructs (say social classes), institutional aspects, the integration of an economy in the world *system*

• If you want structuralism is about the *macro-determination of micro behavior* rather than the micro-foundation of macro models
2. Peculiar features of structuralism macroeconomics

The fact that structuralism “takes as its object of analysis the system” (Palma, 2008) opens up a deep distinction with respect to mainstream economics:

- Mainstream economics pays attention to individual behavior and to the exogenous individual factors that shape individuals’ decision making:
  
  1. the representative consumer takes decision according to exogenous preferences among different goods;
  2. the representative firm takes production decisions according to technological parameters (ex: the elasticity of substitution between capital and labor);
  3. innovation is the result of a mechanical stochastic event out of maximization processes;
2. Peculiar features of structuralism macroeconomics

...on the contrary

- Structuralism pays much more attention to how social and “environmental” factors do affect individuals’ behaviors, and how these feed backs to the system

  1. Different social classes with different consumption behaviors (different saving rates, different consumption patterns – luxury versus basic goods)

  2. Complex production and, in particular, technological processes which depend (in particular in agent-based evolutionary/structuralist models...) on: networks, proximity, cumulativeness and path-dependence -> we end up in heterogeneous economies
2. Peculiar features of structuralist macroeconomics

....Continuing

(3) Tight interaction between the financial side and the real side: NO “neutrality of money” in structuralist models; finance endogenously influences the dynamics of an economy (Minsky, 1986) and changes in response to evolutions in the real-sector, so that finance and the real economy co-evolve -> see heterodox SFC models vs mainstream DSGE models

(4) Different functioning of different economic systems depending on their role in the whole world system: the periphery is different with respect to the centre and must be analysed from a different perspective

- Heterogeneity (informality in developing countries)
- Different productive structures and roles in the world economy
- Different external restrictions, BoP cycles, exchange rate-financial crises (1992 exchange rate crises in Europe vs 1990s Latin American financial crises)
2. Peculiar features of structuralist macroeconomics

The last point of the previous slide implies that structuralism rejects a “one-size-fits-all” modelling approach to economics (as adopted by GTAP models)

Structuralism embraces realism (Gibson, 2003): you have to develop a specific model according to the specific context you want to analyse (see Taylor, 1983) starting from real data and stylised facts

Simulation (perhaps AB-SFC models) preferred with respect to econometrics due to deep endogeneity of most of the elements of the system (Gibson, 2003)
3. Structuralist macroeconomics and current hot topics in developing countries

• Tame finance-led boom-and-bust cycles

Financial shocks are not exogenous stochastic events but they endogenously build up into the system;
Financial mechanisms do not boil down to financial frictions (as in DSGE models) but they are evolving features of the system with constant feedbacks with the real sector

In developing countries the endogenous evolution of financial systems gets even more complex due to the exposure to external (pull) factors (UNCTAD, 2015)

Policy implication: need for macro-prudential regulation and tight controls on credit and financial flows. Inflation targeting is not enough and monetary institutions should pursue broader tasks
3. Structuralist macroeconomics and current hot topics in developing countries

- Increasing or persisting income inequality

New empirical evidence showing that high inequality harms growth (Ostry et al., 2016)

There is a need to understand the new sources of (income and wealth) inequality: financialization and inequality co-evolve both in developed and developing countries (new financial practices or financial concentration developed as a response and in order to favour income and wealth concentration in the hands of and elite of rentiers)

*Policy implication*: tight regulation of the financial sector + strongly progressive taxation (in particular on capital-like income, say capital gains) + taxation on wealth
3. Structuralist macroeconomics and current hot topics in developing countries

Finance and inequality: financial mechanisms of a rentier-friendly economy
3. Structuralist macroeconomics and current hot topics in developing countries

Finance and inequality: the ensuing evolution of inequality

- Income Inequality
- Wealth Inequality
3. Structuralist macroeconomics and current hot topics in developing countries

Finance and inequality: heightened financial fragility

- Bonds in IF portfolio
- Bank Leverage
- Interest Rate on Bonds
- Fraction of Rationed Households
3. Structuralist macroeconomics and current hot topics in developing countries

Finance and inequality: ...and, eventually, negative correlation with growth
3. Structuralist macroeconomics and current hot topics in developing countries

- Redistribution and external constraint in developing countries

Once again, developing countries are (structurally) different with respect to developed ones: redistribution and wage-led growth may be unsustainable if an external restriction (too large current account deficits) binds.

_Policy implication 1_: redistributive policies should finance productive development in order to make redistribution and (faster) growth externally sustainable.

\[ g_H = \frac{\int_0^z \varepsilon(z_s) ds}{\int_z^z m(z_s) ds} g_f \]

_Policy implication 2_: reform of the international financial system in order to accommodate (temporary) development-related external disequilibria in developing countries -> move back to the original Keynes’ “Bancor” plan
Thank you

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