

Compromising Relevance for Elegance: A Danger of Dominant Growth Models for Backward Economies

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Abstract : Backward economies are facing a challenge of achieving sustainable high economic growth rate. Dominant growth models represent a roadmap in framing economic development strategy. This paper examines a relevance of the dominant growth models for backward economies. Cobb-Douglas production function, the Harrod-Domar model of economic growth, the Solow growth model and general formula of gross domestic product are examined to undertake a comprehensive study of the dominant growth models. Deductive research method allows to uncover major weaknesses of the dominant growth models and to come up with practical implications for economic development strategy. The key finding of the paper shows, contrary to what used to be taught by textbooks of economics, that constant returns to scale property of the dominant growth models are a mere coincidence and its generalization over space and time can be regarded as one of the most unfortunate mistakes in the whole field of political economy. The major suggestion of the paper for backward economies is that understanding and considering taxonomy of economic activities based on increasing and diminishing returns to scale represent a cornerstone of successful economic development strategy.

Keywords : backward economies, constant returns to scale, dominant growth models, taxonomy of economic activities

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