Economic growth from a CLAKESCH AGE model

Topic: Classical-Keynesian input-output models
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The paper develops an applied general equilibrium (AGE) model, that is rooted in classical, Keynesian and Schumpeterian traditions. (Thus the acronym “CLA-KE-SCH”). From Classical political economy, properly updated by Sraffa, we take the theory of value and distribution leading to a system of “prices of production”. Commodities leave the factory with a label indicating the cost of production (which includes a “normal” rate of profit on the capital invested). The “social accounting matrix” implicit in our AGE model, does also remind Classical economics. From Keynes we take the principle of effective demand which explains the equilibrium level of final output as a multiple of autonomous demand. (Actually the model determines both the level and composition of output). Autonomous demand encompasses exports, real public expenditures and private investment (the last one, partially explained in the model). Residential investment of households is limited by the burden of debt. Productive investment of the expansionary type is explained by the accelerator principle. Productive investment of the modernization type (which reminds Schupeterian entrepreneurs) is the proper motor of the model and the vehicle of technical change. With the help of Spanish Input-Output Table for year 2005, we explain the dynamics of the Spanish economy in the last decade.