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Direct all comments and questions to

Quarterly Review
Research Department
Federal Reserve Bank of Minneapolis
P.O. Box 291
Minneapolis, Minnesota 55480-0291
(612-340-2341 / FAX 612-340-2366).

In This Issue

> *This* long run *is a misleading guide to current affairs.*
> In the long run *we are all dead.*
>
> —John Maynard Keynes

Keynes' now-famous words, first published in 1924, influenced the direction of macroeconomic research for the next half-century. Economists built models intended to provide answers to familiar questions like these: Will the economy grow fast enough this year to reduce the unemployment rate? Do we need an economic stimulus package this year? Has monetary policy been too tight lately? The Keynesian approach generally fostered economic policies that aimed to smooth business cycles, reduce unemployment, and increase output in the short run.

Since the 1970s, many economists have rejected this approach. They argue instead that private economic decisions made today depend heavily on the expected future course of the economy. As a result, in order to measure the likely impact of their actions today, policymakers must consider the impact over many tomorrows. Indeed, contrary to Keynes' view that the long run is a misleading guide, these economists see the long run as essential for understanding short-run economic behavior and designing optimal economic policies.

The shift in attention to how economies evolve over the long run is especially notable in the area of economic development. The new approach has led researchers to ask more far-reaching questions, questions about differences in long-run economic performance across countries: Why have some economies consistently outperformed others? Why has national income exploded in some poor countries and not in others? How can we construct theories that will explain these differences? And how can we construct policies that will help the less-developed countries do better?

Answering these kinds of questions requires data that cover not just the last few quarters, but at least the last few decades and many countries. A new body of evidence recently became available that does just that. In "Changes in the Wealth of Nations" (p. 3), Stephen L. Parente and Edward C. Prescott examine data for nearly three decades and for most of the countries in the world. From these data, they extract what they consider the essential facts of economic development. Parente and Prescott find that since 1960 the difference in wealth between rich and poor countries has been huge—and consistently so. On average, rich countries have become richer, but so have poor countries. Income in some poor countries has increased tremendously while income in other countries has decreased nearly as much. Parente and Prescott assert that good theories of economic development must be able to confront these facts.

In "Early Progress on the 'Problem of Economic Development'" (p. 17), James A. Schmitz, Jr., looks at how well current economic development theories do that. He describes some of the leading models of economic development and compares their predictions to the Parente-Prescott facts. He also considers the policy implications of these models. According to Schmitz, the best economic development models available so far include more than human and physical capital; they also include incentives for entrepreneurs to create businesses, adopt new technologies, and invest in research. This may turn out to be a key ingredient in good theories of economic development. Schmitz warns that his study is a progress report on research still in an early stage. But the study should not be ignored by policymakers trying to design economic programs for developing economies and, especially, the newly emerging market economies.

The Keynesian advice to concentrate on the short run has proven memorable but questionable. The challenge to macroeconomists now is to develop theories that are compatible with both short- and long-run economic behavior. The two articles in this issue of the *Quarterly Review* are at the forefront of the profession's current attempt to take on that challenge.

Arthur J. Rolnick
Editor