



The Aggregate Production Function and the Measurement of Technical Change

Jesus Felipe, John S.L. McCombie

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'This is an extremely important and long-awaited book. The authors provide a cogent guide to all that is wrong with the theory and empirical applications of the discredited notion of an aggregate production function. Their critique has devastating implications for orthodox macroeconomics.'

- Anwar Shaikh, New School for Social Research, US

'This is a very important book. Proofs that aggregate production functions do not exist have been around for more than 50 years. This casts doubt not only on macroeconomic theory but also on empirical work and policy. Yet, this has not deterred macro-economists. The authors show in great detail that the apparent 'fit' of such functions to value-based data is a tautology and not a proof that such aggregates exist. One hopes that the profession will finally take note.'

- Franklin M. Fisher, Massachusetts Institute of Technology, US

'Felipe and McCombie have gathered all of the compelling arguments denying the existence of aggregate production functions and showing that econometric estimates based on these fail to measure what they purport to quantify: they are artefacts. Their critique, which ought to be read by any economist doing empirical work, is destructive of nearly all that is important to mainstream economics: NAIRU and potential output measures, measures of wage elasticities, of output elasticities and of total factor productivity growth.'

- Marc Lavoie, University of Ottawa, Canada

This authoritative and stimulating book represents a fundamental critique of the aggregate production function, a concept widely used in macroeconomics.

The authors explain why, despite the serious aggregation problems that surround it, aggregate production functions often give plausible statistical results. This is due to the use of constant-price value data, rather than the theoretically correct physical data, together with an underlying accounting identity that relates the data definitionally. It is in this sense that the aggregate production function is 'not even wrong': it is not a behavioral relationship capable of being statistically refuted. The book examines the history of the production function and shows how certain seminal works on neoclassical growth theory, labor demand functions and estimates of the mark-up, among others, suffer from this fundamental problem.

The book represents a fundamental critique of the aggregate production function and will be of interest to all macroeconomists.

Contents: Prologue: 'Not Even Wrong' Introduction 1. Some Problems with the Aggregate Production Function 2. The Aggregate Production Function: Behavioural Relationship or Accounting Identity? 3. Simulation Studies, the Aggregate Production Function and the Accounting Identity 4. 'Are There Laws of Production?' The Work of Cobb and Douglas and its Early Reception 5. Solow's Technical Change and the Aggregate Production Function', and the Accounting Identity 6. What does Total Factor Productivity Actually Measure? Further Observations on the Solow Model 7. Why Are Some Countries Richer than Others? A Sceptical View of Mankiw-Romer-Weil's Test of the Neoclassical Growth Model 8. Some Problems with the Neoclassical Dual-Sector Growth Model 9. Is Capital Special? The Role of the Growth of

Capital and its Externality Effect in Economic Growth 10. Problems Posed by the Accounting Identity for the Estimation of the Degree of Market Power and the Mark-up 11. Are Estimates of Labour Demand Functions Mere Statistical Artefacts? 12. Why Have the Criticisms of the Aggregate Production Function Generally Been Ignored? On Further Misunderstandings and Misinterpretations of the Implications of the Accounting Identity References Index

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