

# COMBINING SHORT-RUN AND LONG-RUN ANALYSIS: SOME HISTORICAL PERSPECTIVES

BY

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The interaction between short-run and long-run adjustments has always been a question of fundamental importance for economics. This question has been raised by different authors who were considered as pioneers of political economy. In recent history of macroeconomics (i.e., after the Second World War), Roy Harrod's 1939 contribution has played an important role, setting the agenda for both growth and cycles theory for at least two decades (see, for instance, Assous 2016, or Bruno and Dal Pont Legrand 2014, or Hagemann 2009). If economists never totally ceased to be interested in this question, the combination between short-run and long-run economic analyses still represents a theoretical challenge. Understanding how both dynamics intertwine is not only fundamental for growth theory (cf. Solow 1988) but also for a better understanding of large fluctuations (i.e., deep and durable downturns, as emphasized by Stiglitz 2016). Indeed, economists know all too well that one of the major routes to understanding economic instability (and, indeed, large depressions) is rooted in the short-run/long-run interaction, and more precisely in growth cycles dynamics.

Considering the renewed interest macroeconomists have shown for growth cycles analysis—and more generally for theories that account for short-run/long-run interactions—a small group of European historians of economic thought put together a workshop on this topic. The purpose of this scientific meeting (which took place in June 2014, generously financed by the Treilles Foundation) was to associate historians of economic thought with macroeconomists at the frontier of their discipline. Our small group of historians of macroeconomics could thus confront more systematically historical insights on the emergence, development, successes, and failures of earlier attempts with current macroeconomic objectives and challenges. In particular, this workshop helped towards a better understanding of the progressive evolution of the

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part played by cycles and growth in modern macroeconomics: from a cycle theory organized around a Marshallian type of center of gravity (or long-run equilibrium state of rest, including growth) to intertemporal general equilibrium models in the sense of real business cycle (RBC) and, of course, DSGE approaches. This exercise helped the participants not only to measure the fundamental evolution of macroeconomic theory, but also to gauge the way economists address today some questions under the influence of new mathematical and computational tools. A selection of seven contributions to the workshop is presented here. Without the objective of comprehensiveness, the editors do hope that this selection offers interesting insights into how economists used to think about short-run/long-run interactions and how they considered that such arguments were crucial elements of their economic analysis. The fact that modern approaches may follow other modeling strategies is, of course, not judged or assessed here, but can at least stimulate the reader's interest for the history of macroeconomics.

Alfred Marshall was mainly interested in *progress*, which he clearly distinguished from economic *growth*. Accordingly, he did not develop any *growth theory*, but paid careful attention to several complex features that characterize economic and social progress. Among the possible limits to progress, he stresses the role of economic fluctuations: fluctuations, particularly credit fluctuations, may be—and often are—a serious threat to a steady social progress. This perspective is strongly based on his well-known distinction between short- and long-period analysis. In her paper, Katia Caldari provides an account of the difficulties Marshall faced in dealing with continuity in time, a Marshallian element very rapidly criticized and rejected. In post-Marshallian literature, time gradation is rigorously divided into “short” and “long” periods, whereas Marshall's concerns for the continuity of real time are banished or, at least, substantially simplified.

Muriel Dal Pont Legrand and Harald Hagemann focus on Joseph Schumpeter's analysis of growth cycle dynamics. It is well known that the process of creative destruction plays an essential role in those dynamics: embodying a ‘cleansing’ effect and having hence a beneficial impact on long-run development. The authors show that Schumpeter's analysis of the interaction between cycles and growth is extremely complex, with the consequence that Schumpeter cannot be seen as a straightforward liquidationist. Not only did he express much more nuanced positions as far as practical economic situations were concerned, but his expressions were articulated well before the Great Depression, proving the strong consistency of Schumpeter's economic analysis over time.

For purposes of comparison with modern real business cycle (RBC) theory, Pascal Bridel re-examines Dennis Robertson's ‘real’ business cycle theory outlined in his 1915 *A Study in Industrial Fluctuation*. Even if, for Robertson, cycles find their origin and respond to oscillations in entrepreneurs' “rational inducement” to invest, in opposition to RBC models in which every outcome is by construction an equilibrium outcome, Robertson discusses in a traditional way the short-run consequences of such exogenous technological shocks. There are no intertemporal equilibrium phenomena in the sense of the RBC approach; cycle theory is organized, for Robertson, around a Marshallian-defined center of gravity (or long-run equilibrium state of rest). The main difference is that, for Robertson, industrial fluctuations are not an equilibrium phenomenon in the precise sense that workers are off their behavioral curves when employment fluctuates above and below its full employment level.

Hans-Michael Trautwein's contribution concentrates on international aspects of business cycles in the works of Hans Neisser (1936) and Gottfried Haberler (1937) in order to draw a comparison between these two authors and with a representative textbook in modern open economy macroeconomics (MOEM), written by Martin Uribe and Stephanie Schmitt-Grohé (forthcoming). All three types of work combine short-run with long-run considerations. Neisser embedded his theory of the cycle in a long-run view of technological progress and capital intensification—his theory of international business cycles demonstrates under which conditions cyclical unemployment and deflation tend to be transformed into structural underemployment in the centers and underdevelopment in the peripheries. Haberler's contribution, too, can be considered as embedding business cycle theory structurally in a global setting; in that sense it also manifests interaction between the short- and long-period mechanisms. Finally, the MOEM framework is based on real business cycle theory that claims to unify the analysis of growth and cycles.

Michael Assous, Amitava Dutt, Paul Fourchard, and Antonin Pottier investigate Michal Kalecki's work on business cycles and growth. Kalecki is particularly interesting due to his strong involvement in the interwar debates on business cycle theory. He was interested in the relationship between cycles and growth dynamics, and, as is shown in this paper, he developed a specific view of instability, and, ultimately, an approach that shows that business cycles and growth—in *Kaleckian* words—are incompatible economic phenomena; i.e., they cannot occur simultaneously.

Roger Backhouse's paper discusses an important episode of macroeconomics: the transition from a perspective in which the determination of income, output, and unemployment was seen as a part of business cycle theory to one in which they are determined independently of the cycle. This transition also means that output analysis started to be disconnected from growth theory. In this new perspective, business cycle theory was seen increasingly as adjunct to short-run theories. Backhouse focuses on the specific influence of Alvin Hansen and Paul Samuelson in trying to understand this crucial evolution.

Richard Arena dedicates his attention to the evolution of the link between growth and cycles theories and the analysis of structural change dynamics. Analyzing a literature developed at the end of the twentieth century and disconnected from business cycles analysis and more generally from short-run analysis, the author identifies the methodological differences between this new literature and earlier contributions. Finally, he investigates this new literature's ability to raise *new issues* (theoretical or empirical ones), which could have been neglected otherwise. This paper helps to evaluate how differences in analytical framework can affect the way questions are addressed by economists.

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