

Referee report for the paper entitled “THE ENDOGENEITY OF THE NATURAL RATE OF GROWTH: AN ALTERNATIVE APPROACH” submitted to Economics:

Authors claim that their contributions are following:

- i) In order to test for the endogeneity of the natural rate of growth, the balance-of payments consistent rate of growth should be used instead of the actual rate of growth.
- ii) Labor force and productivity do not have to increase in order to indicate endogeneity since they might also decrease.

According to their results for the U.S. economy:

- i) Thirlwall’s Law is supported.
- ii) Endogeneity of the natural rate of growth is supported.

For the authors, as a final result their approach is theoretically compatible with that proposed in Thirlwall (2001).

Although their empirical results robust my objection is to the theoretical explanations which are the main concern of the study.

At page 3, the authors state that “although boom periods are defined by periods in which actual rate of growth is greater than warranted rate of growth (Thirlwall, 2002, p. 84), endogeneity is tested when the actual rate is greater than the natural rate”. Following, at page 4 they explain the relation between the warranted growth rate, the natural rate of growth and the balance-of payments consistent rate of growth based on Thirlwall (2001). Then at page 5 they say “the discussion above shows that there are problems in testing the endogeneity of the natural rate of growth. To solve these problems and to be compatible with the theory, we offer to use the growth rate to be consistent with the balance-of-payments as a dependent variable instead of the actual rate of growth”. However it is not really clear that why there is a problem and why it should be used the balance-of payments consistent rate of growth instead of the actual rate of growth. Apart from Thirlwall (2001) why there is such a problem? The authors should make a clear explanation for this question.

This is a nicely written paper, which deals with a very relevant topic, uses appropriate analytical tools to answer the research questions at hand and provide interesting new results. I therefore recommend publication in Economics.