

P. B. 1
D. B. 1

CONFERENCE OF NATIONAL ORGANIZATIONS

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**(Virtually same talk as was given at the Tax
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I approach my assignment this morning - "How to Achieve and Maintain Economic Growth" - in somewhat schizophrenic manner. Perhaps I should even say in double schizophrenic manner because I am really split four ways on this subject - cynic, economist, central banker, and activist-evangelist. All of these characteristics will show up as I attempt to develop my points.

I shall begin by considering briefly some aspects of the nature, measurement and record of economic growth and in doing so will exhibit some of the characteristics of cynic and statistical economist. Perhaps I should note that these are not necessarily mutually exclusive characteristics.

The concept of economic growth is a difficult one and despite widespread discussion, there seems to be a great deal of opinion difference as to just what the correct concept is. In his recent and excellent book, "The Sources of Economic Growth in the United States and the Alternatives Before Us", E. F. Denison defines economic growth as the increase in national product in constant dollars and states explicitly that he gives no consideration to economic progress in general or economic welfare, that no account is taken of leisure, changes in income distribution or uses of income. This definition has the virtue of being fairly explicit and it is a concept used by a great many people who study and talk about growth. It also has the virtue of being quantifiable in reasonably precise terms, that is, if one is willing to accept the concepts and measurements of national product. It suffers, however, from this very virtue because it is a rather narrow concept. General economic progress and welfare may be difficult to measure but they are of high importance to people. Income distribution and use do affect the level of living and the goodness of life and many people prefer at least some leisure to more in the way of tangible goods.

There is no need to labor this point much more, but one other comment may be made even though it is obvious. The composition of the national product and the nature of the thrust which causes it to increase differ over time and between countries or regions. A national product geared to a free consumer society which is affluent differs from one geared to the same type of society but one which still has to meet mostly basic needs. And both of these differ from a national product geared to a war economy or to a society without much freedom of choice. Similarly the power of the thrusts to increase the product both in total or in specific fact differ. It does not necessarily follow, however, that a high-powered thrust for a war economy or one in which freedom of choice is limited is better than a lower-powered thrust in another type of economy.

It is important to recognize two or three other points about the nature of economic growth. Here I talk in the narrow terms of national product and again cite Denison who points out that it is essential to distinguish between growth of "potential" or "capacity" to produce and changes in the ratio of actual output to potential. Capacity depends upon quantity and quality of labor and capital, on knowledge and its application, and on resources. Changes in actual output depends largely on the relationship between aggregate demand and potential output. Changes in the national product between any two dates are governed by both capacity and demand but the causes of change, interpretation of it and policy measures to be taken and their implications for future growth all are different.

It is quite common to hear references to the rate of economic growth in a given year. These have relatively little meaning. Year to year changes in national product vary greatly, as much as plus or minus 15 to 20 per cent, and changes, mostly pluses of 8 to 10 per cent, are not uncommon at all. These figures, incidentally, are for changes in real product; that is, without any price change effects. But changes from year to year reflect mainly changes in

actual output or the effect of aggregate demand. Long term growth rates, those applying to 25- or 50-year periods, are much smaller in magnitude and changes in them are hard to achieve. Actually changes in long term growth rates of the order of 1/10 of a percentage point represent significant achievements. For the United States it has been computed that the annual average rate of growth from 1909 to 1929 was 2.82 per cent and from 1929 to 1957 was 2.93 per cent.

It is highly important to recognize this point if one is to be realistic about what can be done to achieve a higher long term growth rate. Denison lists 31 actions which could be taken to achieve a higher average rate of growth in the next two decades. Not one of them could increase the rate by more than 1/10 of a percentage point and altogether they add up to less than 2 percentage points. Incidentally, not all could be followed simultaneously anyway.

It may be of interest to point out something about these actions. Nine refer to measures the size and quality of the labor force (e.g., 1-1/2 additional years of education, reducing the death rate for people under 65, reducing time lost by sickness, eliminating the waste due to crime, eliminating waste from racial discrimination, allowing more immigration, etc.) Taken altogether they would increase the long term growth rate by less than 7/10 of a percentage point.

Eight other actions would lead to more efficient resource use by eliminating restrictive and wasteful practices, trade barriers, fair trade laws, etc., and speeding up more widespread application of knowledge we already possess. Six actions would eliminate or reduce restrictive labor practices. These fourteen taken altogether would increase the long-term growth rate by just over 7/10 of a percentage point.

Three other actions would eliminate seasonal unemployment and reduce cyclical and structural unemployment significantly. They would add 1/4 of a percentage point to the growth rate. Five actions would affect capital and

investment and would increase the volume of private investment by 25 per cent and of public investment by much more. These would add altogether less than $3/10$ of a percentage point to the growth rate.

I have gone into some detail about this because it is of key importance to understand that a doubling of growth rates or even of increasing our rate of growth from 3 per cent to 4 per cent is very difficult to achieve. It would be quite a feat to increase the long term rate by $1/2$ a percentage point. As noted, it rose just $1/10$ of a percentage point for the period from 1929 to 1957 from the rate of the previous 30 years.