The future of growth in advanced societies

By David S. Wright

International anxiety regarding the recent economic performance of leading industrialized countries tempts one to ask whether something new and very fundamental has happened that limits the capacity of men and governments to manage economic affairs. Traditional Keynesian tools seem inadequate to cope with the present combination of unemployment, inflation and monetary instability. Of course, current economic problems do not approach those of the 1930s, and perhaps the anxiety is in part the result of a much more sophisticated public awareness of economic matters. However, expectations have been heightened by a generation of prosperity and steady increases in living standards, and there is some doubt as to whether these expectations can continue to be met to the same degree as in past years.

Expectations heightened by generation of prosperity

Two broad arguments may be put forward. The first is that the economic problems of the 1970s are the product of an unfortunate coincidence of events and that underlying elements of strength will reassert themselves once these shocks have been absorbed and overcome. The second is that, for a number of fundamental reasons, industrialized countries have reached a plateau, and will not, for the foreseeable future, experience the kind of economic growth they enjoyed in the 1950s and 1960s.

The first argument is an optimistic one. It acknowledges that developments in the past five years have had an ex-
tremely unsettling effect on the elem
of confidence and certainty on wh
strong economic performance depe
The legacy of several years of high in
tion and the fear that it will accele
again, slow growth, the rapid rise in
prices, and increased competition f
the Third World have been major sho
for industrialized economies. The a
ment continues that, with sound fi
and monetary management, economic
formance will turn round and confide
will be restored.

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More pessimistic

The second argument is more pessimis
It suggests that certain basic maladju
ments – notably excess capacity that
emerged in key industries such as st
shipbuilding, textiles, artificial fibres,
some petrochemicals – will result in a g
eral slowdown in industrialized count
after several decades of fairly ra
growth. Export-led growth, which brou
a steady and rapid increase in liv
standards in many countries, can no lon
be maintained in the face of such ov
capacity. Fundamental adjustments
industrial structures, it is argued, will
necessary to cope with new realities,
cluding shifting comparative-advant
relations with Third World countr
Such adjustments are always politic
painful because they inevitably invo
high social costs such as unemploym
and displacement of population. Yet, u
the adjustments take place, it is argu
a return to economic stability and stea
increases in real living standards will
be possible.

The present worldwide slack in e
nomic activity and the accompanying
flation make it difficult to assess whet
this more pessimistic argument is corre
whether certain more fundamental m
adjustments in economies may have
long-term depressive effect on econo
performance. Shorter-term cyclical pr
lems can easily be misinterpreted as be
longer-term at times of economic slack