EXECUTIVE SUMMARY

The Costs of Slow Economic Growth: Collected Essays

Contributing editor: Steven Globerman

Real economic growth is the pathway to higher standards of living. The latter encompasses not just more consumption of goods and services but also more leisure, an improved physical environment, better health and, more generally, a superior quality of life for members of society.

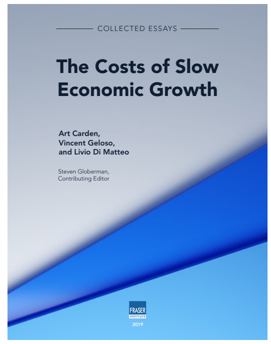
Unfortunately, recent years have witnessed relatively slow economic growth in developed countries, including Canada. While some see the recent slowdown in real economic growth as a cyclical phenomenon and, therefore, amenable to traditional policy tools such as easier monetary policy, others see the slowdown as a manifestation of "secular stagnation" caused by phenomena such as aging populations and an increased reluctance to invest.

In his chapter in the book The Costs of Slow Economic Growth: Collected Essays, Livio Di Matteo characterizes the decades of the 1960s and 1970s as a "Golden Age" for economic growth in developed countries. In contrast, for most of the period starting in 1981 and continuing to the present, real economic growth in Canada averaged only slightly more than two percent annually. The persistence of real economic growth in the 2.0 to 2.5 percent per annum range over the most of the post-1980 decades leads Di Matteo to suggest the possibility that this rate of growth is a "norm" rather than an aberration related to secular stagnation. His chapter provides a sweeping overview of real economic growth over a long period and across a number of developed countries, and it reinforces the notion that real economic growth rates realized during the 1960s and 1970s were exceptional in the broad scope of history.

It would obviously be a boon to public policy if the precise causes of the slowdown in real economic growth in the post-1981 period could be readily explained. As Di Matteo discusses in his chapter, there are various theories of economic growth and, therefore, various competing explanations of the post-1980s economic growth slowdown.

Prominent among "demand-side" hypotheses of slower economic growth, as Art Carden notes in his chapter, is the secular stagnation hypothesis. This demand-side theory essentially maintains that weak aggregate private sector demand for goods and services results in relatively slow economic growth, since producers have limited incentives to hire workers and invest in capital equipment, which limits income growth and further suppresses demand for private sector output.

As Vincent Geloso argues in his chapter in this book, one of the factors cited as contributing to secular stagnation is an alleged concentration of income and wealth among a



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small percentage of the population. However, Geloso presents and discusses data that call into serious question the popular belief that incomes in developed countries, particularly the US, have become more concentrated among the top percentage earners. His analysis also disputes the notion that there is a systematic relationship between real economic growth and the distribution of income.

Carden directly analyzes the secular stagnation thesis. He suggests that supply-side constraints on productivity growth may be more likely reasons for the recent slowdown in real economic growth in developed countries. He argues that the benefits of technological change may be constrained by protectionist government policies including regulations that limit entry into the professions and restrictions on immigration. Both he and Geloso highlight zoning laws and related rules that make housing less affordable in the very urban areas that comprise the economically dynamic centres of national economies.

Without gainsaying the relevance of Carden's call for freer markets as a remedy for slower economic growth, the anomalous behaviour of real GDP growth in the 1960s and 1970s that Di Matteo highlights arguably reflects phenomena that were specific to that period. They include rapid population and labour force growth associated with the post-WWII "baby boom," the recovery of the devastated economies of Europe and Japan, and the expansion of international trade and investment pursuant to the implementation of the General Agreement on Tariffs and Trade (GATT) in 1948. These developments were particularly conducive to promoting economic growth, and they may not be repeated in the future.

Even if real economic growth rates of four and five percent are unlikely to be achievable in the foreseeable future, policymakers should not underestimate the importance of even relatively modest increases in real economic growth. This is because even quite small increases in the rate of economic growth can have substantial cumulative impacts on standards of living through the phenomenon of compounding.

Consider that in 2018, GDP per capita in Canada was $59,879. If we assume for convenience that Canada's population remains constant, a 2 percent per annum increase in real GDP implies that real per capita income would increase by $25,630 after 20 years. At a 3 percent per annum rate of growth of real GDP, real per capita income would be almost $45,150 greater than it would be if the growth rate was zero. Simply put, increasing the annual growth rate of real GDP from 2 percent to 3 percent would almost double the increase in per capita income resulting from economic growth. Obviously, this would represent a very substantial improvement in the standards of living of Canadians. It would also arguably contribute to a more socially cohesive and less politically fractious society. Slow growth helps legitimize calls to protect domestic workers from foreign competition with a resulting cost of reduced productivity to the economy as a whole.

The fact that the average annual rate of growth of real GDP exceeded 3 percent as recently as the decade from 2001 to 2010 suggests that Canada is not necessarily trapped in a "low-level" 2 percent real rate of growth. While there is no "magic bullet" for accelerating real economic growth, the essays in this book identify various initiatives that, if collectively implemented, are likely to mobilize market forces that would help Canada achieve faster economic growth.