7 The Growth of Mature Economies

W. A. LEWIS

What really constrains the rate of growth of a mature developed economy, defined as one where the proportion of the labour force in agriculture is down to less than 30 per cent? Japan claims to have been growing at ten to eleven per cent, whereas other developed market economies claim no more than five to six per cent, which is itself more than such economies could have claimed at any time before 1950.

The standard answers to this question are not satisfying—the savings ratio, the supply of labour, natural resources, foreign exchange, entrepreneurship and technology. I shall reflect on each of these, and argue eventually that the ultimate constraint is the ability of an industrial system to absorb change in orderly fashion.

I

The savings ratio is not an obstacle. It depends endogenously on the rate of growth: it is low when the growth rate is low, as in contemporary USA, and high when the growth rate is high, as in contemporary Japan. Besides it is not the total of savings and investment that ‘determines’ growth, but only that part which goes into productive industry, commerce and agriculture, which is less than 50 per cent of annual investment, when one has subtracted residential building, public service investment, and other aids to consumption rather than production. In a mature economy productive investment gets the first call on savings, in the sense that entrepreneurs can always raise the money needed to finance productive investment—from their own profits, from the banks, on the stock exchange and through private placement. As Phelps...
Brown has suggested, in a mature economy the supply of saving to business enterprise becomes infinitely elastic at some modest rate of return (say a real rate of around 12 per cent net of tax). If there is not enough saving for all the intended projects, public and private, it is the public sector that runs short. The country then borrows from abroad - fast growers can always borrow. Or it borrows from the banks (accounting for the slight correlation between fast growth and inflation). In any case fast growth changes the ratio of total savings by raising the relative share of profits, by increasing government receipts faster than government expenditure, and by mobilising personal saving that would otherwise not occur. 'Take care of investment and the savings ratio will take care of itself' is bad advice for poor countries, but is just about right for rich countries.

Keynes taught us to see the savings ratio as an obstacle to growth in the opposite sense, namely that it might be too high for the planned level of investment. Then we might also say that under-consumption is the constraint on growth. My question, however, presumes that there is no lack of willingness to invest. If this unwillingness exists, for any of the reasons yet to be explored, the growth rate of the economy will be constrained, and bouts of unemployment will show up as it shifts to a slower growth path. I count this, however, as a deficiency of investment rather than a surplus of savings.

II

The labour supply is also not an obstacle to growth. Up until around 1960 most developed countries had large reservoirs of cheap labour - in farming, domestic service, retailing, small scale transport and elsewhere - that could be transferred into high wage occupations and industries. As this supply diminished, it was replenished by importing cheap low-wage manufactures from developing countries. Also, low-wage industries were increasingly mechanised, or transformed by self-service. Then mechanisation of the home made it possible to bring great numbers of married women into the labour market. And finally these countries turned to immigration of unskilled labour. So labour was not a constraint on production - not even skilled labour, which seems to have been trained just about as rapidly as it was required.

Presumably there are physical limits to the speed at which people can be transferred from low-wage into high-wage industries. For