3 From High to Low Growth

3.1 INTRODUCTION

From about 10 per cent during HEGP, the growth rate fell to 4.7 per cent in 1970–5, and 4.9 per cent for 1975–80 (Figure 3.1).

Figure 3.1 Fluctuations in the economic growth rate, 1955–80

Sources:
In the 1970s the economy was beset by a succession of problems—the appreciation of the yen against the dollar, the oil price rises, high inflation, and recession. It might therefore be argued that short-term problems were largely responsible for the fall in the growth rate. However, it has now been at half that of HEGP for more than ten years, and a return to high growth appears to be out of the question. Therefore we believe we must accept that we have entered a new phase, and that short-term factors are not sufficient to account for the changes that have taken place.

In this chapter we set out the factors responsible for this change, and discuss what adjustments became necessary. Finally, we examine how far we have adjusted.

3.2 THE CAUSES

Why was there a long-term fall in the growth rate after 1970? By dividing Harrod's growth model \( GC = s \) (or for our purposes in this chapter, \( G_n \times C_r = s \)) into its three separate elements,\(^1\) we get three possible causes: (i) the effect of the initial fall in the growth rate, (ii) a fall in the efficiency of capital, (iii) a fall in the rate of savings. We consider each of these in turn.

3.2.1 The Natural Rate of Growth

What we can say for certain is that in the 1970s the anticipated long-term growth rate fell significantly (Table 3.1). This can be interpreted in many ways. It could have been simply that seeing the fall in the actual growth rate, people lowered their expectations for the future, and this in turn caused the actual growth rate to fall further. This line of argument, however, could be criticized as simply going round in circles. It might also be argued that the real problem is to find out why the anticipated long-term growth rate fell, and that unless this is known the causes of the fall in the actual growth rate will remain a mystery.

What should be recognized, however, is that a fall in the anticipated growth rate plays a vital part in the 'slowing-down process' of the actual growth rate. Companies' decisions on investment and employment depend largely on the anticipated long-term growth rate, and households' choices on whether to save or consume are governed by 'anticipated long-term income'. To this extent at least, people's expectations have a tendency to be self-realizing.