

Overview

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This conference, in contrast with many of the previous conferences in this marvelous series, deals with the long run. We are all familiar, of course, with the dictum of Keynes about what happens to us in the long run. We are also familiar with what Joan Robinson told him: "Yes, master, but not all pass at the same time." We are also familiar with what Bob Solow has to say about this: "Keynes was always good at long-term forecasting." The ability to forecast the long run with more precision than our ability to forecast the short run is, of course, very limited. This may be testimony to the fact that our policies are not always capable of altering, in a fundamental way, the long-run trends of the economy. Having said this, the purpose of this conference is to discuss ways to alter the long-run trend in the economy. We have had an extraordinary range of arguments raised during the past two days.

What have we learned? As I look through the various prescriptions, points and counterpoints, points that were left up in the air, and those that will come down, there was one important dictum that was left completely uncontroversial: the secret for growth is to start from behind and keep population growth low. These two statements were uncontroversial. However, they do not seem to be a very dynamic formula for getting ahead. There were also various arguments for equipment investment, and whether we should target or subsidize various activities.

We have seen a slowdown in productivity. The debate was whether

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it was unusual when you look at it from a longer-term perspective, or whether it was just measurement bias. We know that the capital share does not explain much. However, by redefining the capital share to include human capital, the theory explains much more. And then ultimately, what was left open was the real test that brought about the new theories of growth. If you will recall, it was always the first paragraph in the new theories of growth that stated: these are the stylized facts that our old theory does not explain and therefore we are in search of a new theory. We are still left with the question of which empirical irregularities are not explained by the new theories. I'm not sure that we got a complete list, but I'm sure that it will come out.

There was an intriguing discussion of convergence that was not included in the written record. On the one hand, from the debate on the Maastricht Treaty and European Monetary Union, we know that convergence is important for a successful move to monetary union, which allegedly provides a link to growth. Then Roger Brinner raised a question of whether convergence is also the key for obsolescence. As we move toward convergence, maybe there is a once-and-for-all obsolescence and we are pushed behind. And this raises another set of questions. Do we run faster to avoid obsolescence? Or do we become discouraged because the rate of return on new innovation is so much lower so that it is likely the innovation will quickly become obsolete?

There is also the question of who should do what. What is the role of government? And many in this group, which I am sure is not randomly selected, believe there is an important role for the public sector. But I still think the world's basic instinct is correct: we should be suspicious about government involvement in the economy. Remember, there are the three lies that people always speak about when discussing the public sector. Two of them are irrelevant to the debate today, but the third is relevant. The two that are irrelevant are: when you are told "The check is in the mail," don't believe it; and when you are told "Don't call us, we'll call you," don't believe it. And the third one, which is relevant, is that when you are told that somebody is knocking on the door and says "I'm from the government; I'm here to help you," don't believe it. With this suspicion in mind, we still face the question of the role of the public sector as we are trying to promote policies for growth.

Except for some brief remarks here and there, the role of the exchange rate was not mentioned. And it is telling to anyone who remembers the theme of the conference seven years ago: "the rocky dollar on the Rocky Mountains." But even though the dollar is no less rocky today, it was not mentioned here today. We know that several of the G-7 deputies are meeting in Paris to talk about the dollar, mark, and yen; we know that the Maastricht Treaty deals with exchange rates; we know how much time we spend discussing the exchange rate in our personal and professional lives. Should we, therefore, conclude that it is all in vain when it comes to growth? Or irrelevant? Or, perhaps it is captured through some other mechanisms. And indeed, some mechanisms were mentioned in the debate. The exchange rate may enter through the inflation rate; Plosser, De Long-Summers, and Shigehara talked about inflation and its variability. De Long-Summers spoke about the independence of the central bank, apparently raising in the background the question of exchange rate regime. But the exchange rate was not in the forefront.

Except for the very interesting luncheon speech by Domingo Cavallo, most of the discussion in the papers concerned the industrialized countries. But Domingo Cavallo reminded us that there is another part of the world, the part that is still struggling with the aftermath of stabilization, and is searching for the way to transform stabilization into growth. As we talk about the process of stabilization and growth, we must remember that although we have two options, only one is correct. The one that is correct is to think about the process as a two-stage rocket, where the first stage is stabilization and the second stage is growth. You cannot speak about stabilization without having in mind the second stage, because otherwise you will not take off. The second option, the one that has guided many countries in the wrong way, is to think about the process as two separate chapters that are unrelated. De Long-Summers reminded us that recessions do have lasting effects on growth and that distorted relative prices—a consequence of wrong stabilization policies⁴⁰ have long-term effects on growth.

Everyone who has had to deal with stabilization programs recognizes four Achilles' heels. First, there is political impatience. Politicians would prefer to declare victory over stabilization and then move to the phase of growth prematurely. Some of us were together

in a meeting with the prime minister of a country that I will leave unnamed. Three weeks after the start of stabilization, the prime minister asked us whether he could declare victory and move on to growth. The second Achilles' heel is that typically countries that are stabilizing find themselves with extremely high real interest rates. Third, countries that use the nominal exchange rate as an instrument for stabilization find that there is a real appreciation of their currency, which is not always conducive to growth. And finally, when told to cut spending, they typically cut spending on infrastructure investment. But this is the kind of spending needed for growth. Therefore, I subscribe very strongly to the De Long-Summers notion of the two-stage rocket.

Domingo Cavallo also told us that you must have a big leap. As you are changing the political process, and the political system is changing in a dramatic way, the economic system cannot adjust gradually. The economic system must also take a big leap. Operationally, this is what is needed to shake the tree that the political environment speaks so much about.

If one wants a theme that would combine many of the arguments that came up in the past two days, I would focus on the word "composition." In short-run macroeconomic stabilization programs, we speak about macroeconomic aggregates: budget deficits, spending, investment, consumption, and the like. However, if we want to think in terms of stabilization on the way to growth, we must look at the composition. For example, it is not enough to speak about the budget deficit. What is the composition of government spending? How much of it is on investment goods? consumption goods? What kind of taxes are being levied? Does tax policy promote production and supply? Or does it promote consumption and absorption? Likewise, who is the spender: the government or the private sector? All of these issues are, of course, the key as we look at the theme of the composition.

In looking at the major themes in the debate about what produces growth, I heard people talking about transparency, about preannounced objectives and policies, and about permanent policies. And also, Salvatore Zecchini mentioned the importance of social safety nets. I subscribe to social safety nets, not as a mechanism to ensure

equity in society, but as a mechanism to secure the political consensus and support that is necessary to prevent stop-and-go policy.

Let me conclude with one important remark about the competitive environment. You can grow in the wrong way, or you can grow in the right way. If you grow in the wrong way, you will require a diet, and then you don't know whether you are better or worse off after discounting. And what's the right way? The right way, of course, is the competitive way. But many countries start the growth process after having a distorted economy for many years. As a result, they do not really know true relative prices or the right allocation of resources. And that's why opening to trade and trade liberalization is such a critical element in the creation of a competitive environment and in the effective elimination of interest groups.