What to Do about Growth

DEEP unease about rising inequality and stagnating living standards in advanced economies was at the heart of the 2016 political upheaval. Globalization and trade have been blamed, but entrenched slow growth—what economists call secular stagnation—may be the real culprit. Parents who took for granted that their children would enjoy a brighter future had their dreams dashed by the global financial crisis of 2008. Nine years later, rising populism and a return to nationalist, inward-looking policies threaten to unravel the postwar economic order.

As Nicholas Crafts of the University of Warwick argues in our overview story, declining productivity growth—the main reason for slow growth and falling incomes—was evident long before the crisis struck. This issue of *F&D* looks at why and asks whether the world's advanced economies should resign themselves to secular stagnation or hope that the right policies can revive productivity and lasting economic growth.

Diving into the causes of slow productivity growth, IMF economists Gustavo Adler and Romain Duval find roots in the global financial crisis—tight credit undermined not only firms' productivity but also the economy's ability to redirect capital. Other factors were also in play, especially aging populations. Ronald Lee of the University of California, Berkeley, and Andrew Mason of the University of Hawaii, Manoa, argue convincingly that slower population growth will almost certainly mean slower national income and GDP growth. But they also show that the effect on individuals—in per capita income and consumption—will depend on economic policies.

We wonder what to do. Can policy choices calm fears about redistribution and fairness without shutting down trade, the main engine of postwar economic growth? What drives higher productivity and innovation? How can advanced economies adapt to an aging workforce?

First we must measure the right thing. Diane Coyle of the University of Manchester discusses the pros and cons of GDP to measure economic welfare.

Second, we should not forget that two-thirds of the world's population—namely, those in developing and emerging market economies—face a different reality. Younger populations and still-vibrant productivity in many of these countries are driving higher economic growth at home and in the global economy.

Third, we shouldn't go overboard. Global trade has been a leading force behind productivity growth, and barriers against it would hurt all economies, large and small. Instead of reaching for easy answers, economists and policymakers must probe their own economies' challenges. As Berkeley economist Bradford DeLong argues, "Only if we do something about it, is it likely that in nine years we will no longer be talking about secular stagnation."

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