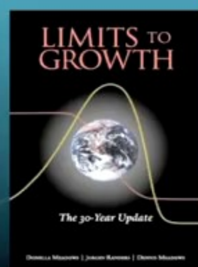
LECTURE SEVEN - PART FIVE

Two Important Questions

1. Is more growth always good?
2. What demand and supply side government policies might be used to improve productivity and growth?

The Pros and Cons of Growth

- Growth increases wages and standard of living.
- Growth results in dirtier air, a dying ocean, global warming, ozone depletion, and other environmental problems.



More Disadvantages of Growth

- Growth permits us to “make a better living” but it not guarantee us the “good life.”
- Growth often means worker burnout and alienation and accompanying health problems.
- Both blue and white collars workers alike are affected.

Economic vs. Population Growth

- We must distinguish between economic growth versus population growth.
- Congested neighborhoods, crowded cities, and gridlocked freeways are often the consequence of over-population.

Growth and Public Policy

- GDP per capita: The essential measure of growth.

Key Questions

1. Are there reasons for desiring less GDP per person & a reduced standard of living?
2. How might the government use public policy to stimulate growth?

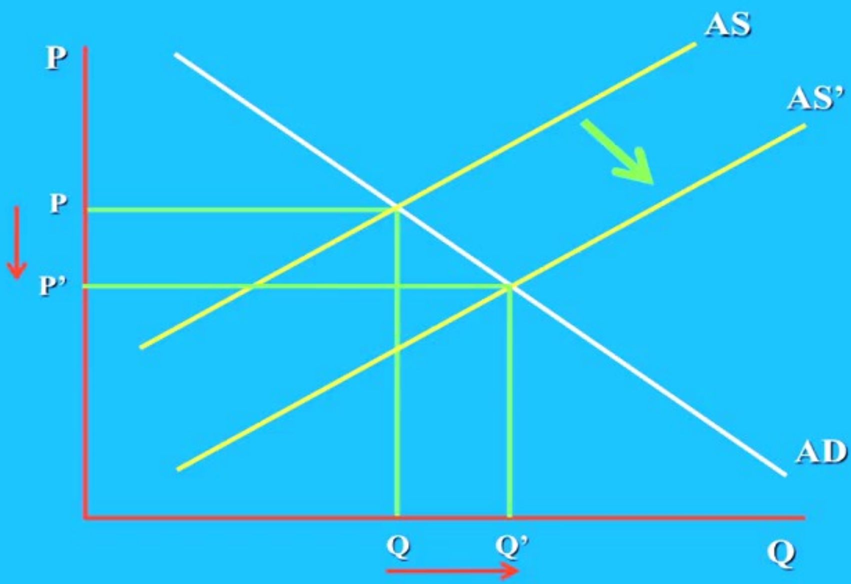
Demand-Side Policies

- Low growth is often the consequence of inadequate aggregate demand.
- Both Keynesian fiscal and monetary policies can be used to close a recessionary gap.

How Keynesian Policies Work

- If the Federal Reserve cuts interest rates, that stimulates investment.
- A fiscal policy which eliminates budget deficits can reinforce this "easy money" policy.

The Advantage of Supply Side Options



The Capital-Labor Ratio

- Productivity increases with the ratio of capital to labor.
- We must accelerate investment in new plant and equipment to boost the capital-labor ratio.
- The U.S. tax code offers a variety of incentives to stimulate investment.
- Examples: Accelerated depreciation, tax credits, lower business tax rates.

Human Capital

- To increase productivity, the quality of our our labor force and its managers.
- Policy options range from tuition tax credits and expanded student loans to job retraining programs and a focus on lifetime-learning.

Technological Change

- Accelerate the rate of technological change to increase productivity.
- This allows us to produce more goods and services from a given amount of resources.

Spurring Technological Change

- Policy options similar to those for increasing investment, namely, tax incentives.
- Increasing investment in new plant and equipment works hand in hand with increased R&D.
- Together, they speed the diffusion of new technology and accelerate the rate of productivity gains.

The Importance of Public Infrastructure

- Raise public infrastructure investment to spur productivity.
- Just as new plant and equipment help workers produce more, modern infrastructure helps businesses produce more.

Prudent Public Investment Essential

- Governments must not ignore appropriate investments in basic infrastructure.
- Critical needs: Bridges and airports to "smart roads" and the information superhighway.

"Deficit reduction at the expense of public investment has been and will continue to be self-defeating."

The Critical Savings Rate

- A higher savings rate will boost many of the factors determining productivity growth.
- Savings represent a key source of investment funds.
- They finance new plant and equipment, human capital, research and development, and public infrastructure.

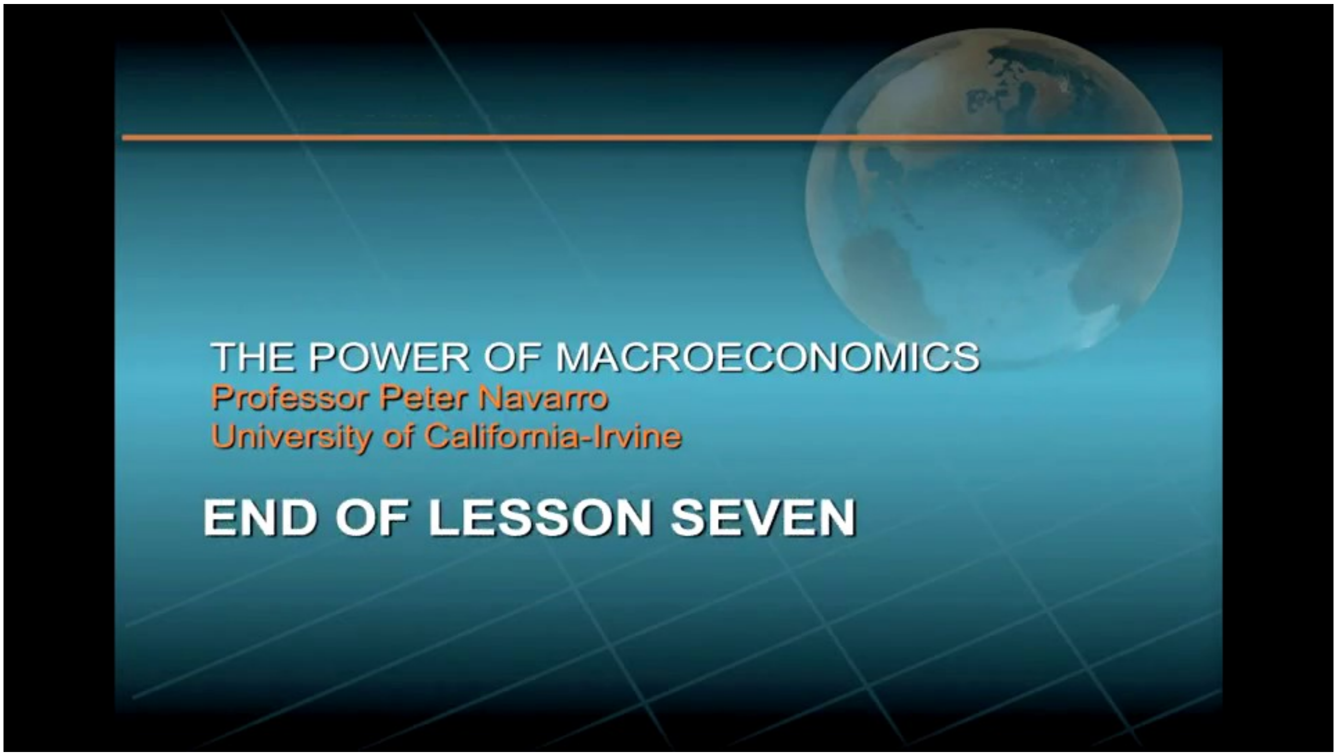
How To Boost the Savings Rate

- The U.S. has one of the lowest savings rates of any of the industrialized nations.
- Policy options include expanded tax preferences for Individual Retirement Accounts and other pension funds.

Coming Up Next!

Lesson Eight:

Budget Deficits and the Public Debt


THE POWER OF MACROECONOMICS
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END OF LESSON SEVEN