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Growth Policy in the Spirit of Steindl and Kalecki

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 **WORKING PAPERS**

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Growth policy in the spirit of Steindl and Kalecki

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Abstract

There are large differences between Steindl's ideas on growth policies and the Brussels/Paris consensus. Steindl called for innovation and education policies, the mainstream today rather favours deregulation and privatisation. Steindl stressed the positive demand-side effects of the public sector and the contribution of lower household savings and anti-cyclical policies to growth. The economic mainstream praises the efficiency effects of a declining public sector, the importance of high savings for investment and warns of active anti-cyclical policies being an impediment to budget consolidation. Steindl and the Keynesians regarded the labour market situation as a consequence of economic growth. Today many economists see low growth as a result of labour market rigidities.

¹ Paper presented at the Conference in Honour of Josef Steindl on September 4-6, 2003, in Vienna

Why did the economy not stagnate?

In his book "Maturity and Stagnation in American Capitalism" (1952), Josef Steindl tried to explain the stagnation of the US economy in the interwar period. He established a relationship between economic stagnation and the growth of oligopoly in advanced capitalist countries. Steindl distinguished between competitive and monopolistic industries. In competitive industries profit margins are highly elastic, excess capacity is eliminated in the long run by squeezing out surplus capital. In monopolistic industries, on the other hand, price cuts are not practicable. In these industries, demand does not determine prices, but the degree of capacity utilisation - also in the long run. The typical producer in the competitive type of industry has low profit margins and rather small chances to survive. In monopolistic industries, on the contrary, producers have substantial profit margins and a high chance of survival. Therefore it would require a large price cut to eliminate competitors. Hence, oligopolistic or monopolistic firms avoid cut-throat price competition.

The important consequence of this distinction is: The rising share of the monopolistic type of industry due to the capitalist concentration process tends to reduce utilisation and hence investment. The greater the concentration, the more likely a cyclical downturn leads to a longer decline.

This was the essence of Steindl's book on stagnation which was published in 1952, a most unfavourable time for his ideas. The era from the 1950s to the early 1970s became the "Golden Age of Capitalism" (Marglin, Schor, 1990), the longest period of growth that capitalism ever experienced. Full employment was established and living standards were rising rapidly. For Josef Steindl who expected a secular tendency to stagnation in mature capitalist economies, the prosperity of the post-war area was a big surprise. In the introduction to the re-publication of his book on "Maturity and Stagnation", Steindl explained this extraordinary development mainly by the following factors:

- the rising share of the public sector
- technical innovations and new products
- international cooperation in economic policies
- cooperation between business and trade unions
- a favourable political and economic climate.

Vastly increased public expenditures raised effective demand. These outlays were largely financed by profit taxes. Following Kalecki's arguments, the expansionary effect is higher if the tax hits profits and not mass consumption.

Technical innovations stimulated investment. Information and communication technologies, automation and aircraft gave a strong impetus. The innovations due to high military spending in the period of the Cold War disseminated to the private

sector (internet, satellites). In "Maturity and Stagnation", Steindl had underestimated the importance of technical innovations and new products for investment.

An additional impulse came from international cooperation, in particular the global currency policy based on the Bretton Woods system and coordinated by the United States. In Europe, in addition, private investment was stimulated by catching up technologically with the United States, a process which was initiated by the Marshall plan. On the supply side, the exceptional speed of development was facilitated by the availability of additional labour supply from agriculture and, later on, from abroad.

In contrast to the pre-war area, a general climate of confidence was prevailing in these years of prosperity, and the tendency to overcapacity and saturated demand was delayed by two factors: On the one hand, the high level of employment increased the bargaining power of trade unions, and due to labour shortages entrepreneurs were interested in a stable labour force. Thus, workers could fully participate in productivity increases, and a rising share of labour in national income guaranteed a high level of demand for consumer goods. On the other hand, growth was also enhanced by the extension of foreign trade, a process which also helped to keep profit margins within limits.

Overviewing the political background, Steindl argued that "... the driving force underlying the growth period was the contribution of two very distinct elements. First, there was a conscious political and moral reaction against pre-war conditions, particularly in certain European countries. Second, there was the tension between the superpowers which led to large armament spending and technological competition, as well as economic co-operation of the western countries under the leadership of the US." (1979, p. 8)

From the 'time of economic miracles' to 'the great disarray'²

When Joseph Steindl wrote about periods of "stunted growth" he referred primarily to the 1970s. At that time the post-war high growth period of the 1950s and 1960s gave way to a period of low growth rates. GDP in the EU countries grew by 4 per cent per year in the 1950s and 1960s and by only 2 per cent on average after the "first oil shock" in the mid-1970s. No improvement has taken place since then. On the contrary, recent developments in the Euro area even point towards a more intensified period of stagnation. Growth rates of GDP declined to 1,5 percent since early 2001. This is a new development for Europe. In the past, recessions usually lasted one to two years and were followed by relatively steep upswings. Reasoning about economic stagnation, its causes, consequences and the policies out of stagnation seems to be even more suitable for the current decade than for the 1970s.

² Steindl, J. (1989)

Besides major political changes, some economic factors added to the retardation of growth. In the period of prosperity factors germinated which caused restrictive tendencies: First - despite some uncertainty in data - it seems that up to the 1980s the rising standard of living resulted in a trend towards increasing household savings as a proportion of disposable income.

Also internal savings of firms increased since unwanted amortisation funds were accumulated over the growth period through an increasing difference between depreciation and the replacement of capital. As Josef Steindl (1979, p. 11) pointed out, "It means that a lot of new production capacity can be created by investing depreciation funds alone".³ Moreover, in Europe the opportunities for catching up technologically began to dwindle. An important stimulus for investment petered out.

Since the early 1980s income distribution has changed from low to high saving classes; i.e. in most industrial countries the share of wages and salaries in national income has been declining while non-wage income, in particular property incomes, have virtually exploded, hence income dispersion between the rich and the poor has increased substantially. On the top of that, the burden of taxation has shifted from profits to wages – a process that reduced the expansionary effects of the public sector (Steindl 1979, p. 5). Assuming that tax revenues are immediately spent, higher profit taxes are paid out of increasing profits (before taxation) due to higher capital utilisation, while an increase in wage taxation reduces consumption.

Stagnation Policy

"This policy of stagnation is likely to continue, since governments are preoccupied with inflation and the public debt." Steindl (1979, p. 9)

When Steindl in his article on "Stagnation Theory and Stagnation Policy" (1979,p. 13) was looking for the reasons of the decline in growth rates he got the impression "that it is not so much objective circumstances which have changed as political attitudes". We may therefore define "stagnation policy" as a kind of policy which is omitting all or most of the factors that were responsible for the extraordinary growth performance in the Golden Age.

Steindl emphasized several elements of the new political framework:

- macroeconomic policy was oriented primarily towards price stability and budget consolidation

³ In his 'General Theory' Keynes (1936, app.) had already pointed out that writing off the initial costs of investment "more rapidly than the equipment actually wears out" will dampen effective demand if financial provision in excess of replacement is not balanced by new net investment. Later-on Harrod (1970) and Bhaduri (1972) showed the quantitative importance of unwanted amortisation funds as a source of net savings and Bhaduri came to the conclusion that "institutional arrangements must provide for an outlet of such 'unwanted' funds to be reinvested, so that this can become an important source for financing economic growth without threatening the economy with the problem of 'oversavings'." (p. 677).

- international cooperation declined
- environmental and energy problems increased
- a political trend against full employment occurred

New macroeconomic policy - which was actually the "return of the Bourbons" (Steindl-Bhaduri 1983) – regarded price stability and budget consolidation as a precondition for growth. This resulted in a restrictive bias in economic policy, particularly in the EU.

In terms of international politics, a shift in the power structure caused a decline in economic cooperation at the world level, i.e. between the USA and the rest of the industrial world. The tensions between East and West diminished and the supremacy of the USA and of the Dollar was put into question. This resulted in the break down of the Bretton Woods system and the establishment of a flexible exchange rate system in the early 1970s. Moreover, the decline of tensions between the superpowers dampened military spending as well as technological competition between East and West.

Since this time concerns about environmental and energy problems increased. They may have had ambiguous effects on both the propensities to consume and to invest, but the least one can say is that both business and consumer confidence has rather been eroded than supported.

Probably most important of all was a political trend against full employment. Following Kalecki's (1943) vision of the political aspects of full employment, Steindl argued that the entrepreneurs were losing interest in full employment because of the increasing power of trade unions and employees as a consequence of full employment. The sustained high level of employment – full employment in Europe – had strengthened the power of trade unions in the wage bargaining process and the economic position of workers at the plant level. This shift in the economic power position from capital to labour resulted in conflict-oriented industrial relations and a new attitude of entrepreneurs and governments against full employment and growth. The stronger position of labour under full employment led to growing opposition to government intervention and full employment policies. The new political aim was to abolish the welfare state and to weaken trade unions. International tax competition, liberalisation of capital markets, deregulation and wage negotiations at the plant level were some of the instruments to achieve these goals.

EU policy from a Steindlian perspective

Steindl identified a persistent and lasting mood against growth and very clearly spoke about a deliberate "policy of stagnation". This characterisation seems to be

even more appropriate for the current development. In the European Union a macroeconomic policy framework has been established which has a restrictive bias - it may even be characterised as "policy of stagnation" - although it promised stability and growth. In the current macroeconomic policy framework of the EU, institutions to guarantee price stability and sound public finance are extensively developed. However, institutions responsible for aggregate demand and full employment are missing⁴.

In 1988, Josef Steindl expressed his rather pessimistic expectation on Europe's economic policy in a short comment. He compared two visions: a Europe of Keynes and a Europe of the EU. With reference to Keynes' "Economic Consequences of the Peace" (Keynes 1919) and his concept of the "Clearing Union" (Keynes 1980, vol. XXV, vol. XXVII, p. 196-7) Steindl pointed out that Europe has to be seen as a unity of common interests with a long lasting tradition of close ties that cannot prosper without a balance of interests between creditor and debtor countries (i.e. imbalances in the trade balance). It has to be avoided that debtor countries are forced to a painful policy of restrictions causing low growth and high rates of unemployment and of which all countries would have to suffer. On the other side, he envisaged the Europe of the EU which is mainly concerned about the supply side of the economy. A vision which relies on the supremacy of a large economic region that is characterised by economies of scale and a more efficient allocation of resources due to intensified competition.

The record of the EU model of economic policy so far has been disappointing. Growth rates of GDP are low and unemployment is high in relation to long run averages and to the US. Economic policy in the European Union seems to have an inherent anti-growth and pro-unemployment bias. How far are macroeconomic

⁴ There are three main pillars of economic policy in the EU:

(1) A "free" market economy is generally seen as being stable and improving welfare. The realisation of the internal market brought into effect an extensive program of deregulation and establishing free movement of goods, services, capital and labour. This program is continuing in the form of the "Cardiff process" which is enhancing structural reforms especially on product and capital markets in order to intensify the internal market. The functioning of liberalised markets is seen as the main element of improving real variables such as economic growth and employment in the long run.

(2) Macroeconomic policies in the European political concept are oriented towards ensuring growth and stability by providing stable frameworks. This is seen to be guaranteed by the combination of "price stability and sound public finance" (articles 4 and 99 of the Treaty of the European Union). For achieving these ends two institutional arrangements have been formed: Firstly an independent European Central Bank has been established which is primarily oriented on price stability. Monetary policy is seen to be able to influence only nominal variables such as inflation, but not real variables such as growth and employment. Secondly the Pact for Stability and Growth aims for budgetary positions "close to balance or in surplus" in the medium term.

(3) Labour market policies have been gaining relevance in the second half of the 1990s. The unemployment problem, however, is still seen from a neoclassical perspective, mainly determined by "structural factors". In the medium and long term, unemployment is said to be unaffected by aggregate demand or productive capacities, but the NAIRU can be diminished by a more flexible labour market. EU employment policies therefore are oriented towards increasing the adaptability of the workforce and the flexibility of the labour markets ("Luxembourg process").

policies, lack of coordination and underdeveloped innovation policies responsible for low growth in the EU?

The stance of monetary policy is empirically hard to analyse as many different concepts exist. Most economists would, however, agree that monetary policy in the Euro area since 1999 has been less expansionary than in the US. The Federal Reserve pursued an active anti-cyclical interest rate policy, the ECB followed hesitantly. The institutional framework of the ECB has clearly an anti-inflationary bias, just as the Deutsche Bundesbank had before. France and Italy are now pushing hard for a growth orientation of the ECB similar to the Fed.

The fiscal policy stance is even more difficult to determine. This has manifold reasons. Budget policy has a discretionary impact on tax rates and certain elements of public spending ("active character of public budgets"). The general government financial balance is, however, also determined by the volume of GDP, which in turn is a function of the interaction of the borrowing and savings patterns of the different sectors of the economy ("passive character of public budgets"). High or low budget deficits therefore do not directly point towards expansionary or restrictive fiscal policy. Furthermore fiscal data in the European Union have been influenced very much by one-off measures especially since 1996, as countries tried by all means to qualify for EMU and even more so since the establishment of the Stability and Growth Pact. Nevertheless, it is quite evident that the US pursued an active anti-cyclical fiscal policy during the last recession: The fiscal balance turned around from +1.5% (2000) to -5.5% of GDP in 2004. Not only automatic stabilisers, but also active measures contributed to this deficit in the recession. Higher military expenditures and large tax cuts were the major instruments of this "deficit spending". In the Euro area, on the other hand, no anti-cyclical measures were taken on the whole – mainly because of the budget consolidation target and the economic philosophy around. The change in the general government balance from + 0.2% in 2000 to -2.7% in 2004 was, by and large, due to the working of the automatic stabilisers, i.e. the effect of very low GDP growth on revenues and unemployment.

What we experienced in recent years was a European economic policy focused on preventing inflation and budget deficits. With the 'Stability and Growth Pact' Steindl's apprehensions were realised: Europe's economic policy got a bias towards stagnation policy from the outset. The Lisbon process – oriented towards economic growth – could not change very much so far.

Growth policy along Steindlian lines

The main challenge for economic policy is to restore the extraordinary favourable conditions of the Golden Age. In the spirit of Josef Steindl four policy areas are crucial:

- stimulation of innovation
- anticyclical policy
- reduction of household savings
- policy coordination

While European economic policy is characterized by a restrictive bias, Steindl supported expansionary demand policy and support for ailing firms as short-run strategies in recessions. But since he was well aware of the fact that these measures cannot be continued indefinitely because of the burden of interest on the public debt, he saw mainly two strategies as long-run policy device to push the economy on a more sustainable growth path: stimulation of innovation and reduction of household savings. (It is surprising that it was just Joseph Steindl who called for lower household savings since in his personal habits he was rather prudent).

Stimulation of investment by technology and innovation policy

In his 1981 article "Ideas and Concepts of Long Run Growth", Steindl (1990, pp. 127-138) was focussing on the important role of technological progress as a stimulus to investment and on the "economic climate" which is of decisive importance for the transformation of know-how into innovation.

Investment, the driving force behind economic development, is mainly influenced by three factors:

- a. internal accumulation
- b. capacity utilisation and
- c. innovations.

What economic policy can do is fostering these determinants of investment, in particular raising capacity utilisation and stimulating risky innovations. Thus, boosting long-run growth is linked to technology policy. Kalecki regarded innovations as the main stimulus to growth.

Steindl argued that in growth theory exogenous innovations play a similar role as random shocks in business cycle theory – with one big difference: the effects of innovation are always on the positive side. In „Maturity and Stagnation in American Capitalism“ (1952), Steindl used Harrod's idea of an endogenous trend. But later he converted to Kalecki's theory of a semi-autonomous trend: A flow of exogenous innovation is stimulating investment which is, however, dependent on the economic climate. Without effective demand there is no growth in investment.

Technology policy may thus be seen as an important instrument to stimulate investment and hence growth. Steindl strongly preferred direct measures to indirect ones (tax incentives). He regarded it as inevitable to evaluate certain technological

projects. Moreover, he was in favour of a concentration of programmes on a certain cluster. He often stressed the influence of military spending in the United States on technological innovation. The US is spending 2.7% of GDP on R&D, the Euro area only 1.9%.

Steindl did not only put much weight on technology, but also on education which is closely related to technology. He put very much stress on the education of engineers and skilled workers. For instance he considered the slowly growing supply of engineers in Austria to be an essential impediment to the development of technology and national research in Austria. In the sixties, Steindl wrote a book on "Educational Planning and Economic Growth" (1968) and several studies on education policy in Austria. He saw the limits of growth ultimately given by the ability of a society to learn.

At one of the conferences in Trieste, Alessandro Roncaglia argued that unemployment is created by the policy of restricting demand because it leads to a deficiency in investment. Steindl added: Perhaps the neglect of human capital is even more grave. He saw the bottlenecks for higher growth rates in qualified manpower, not in equipment. Scarcity of qualified personnel made it impossible for investment to increase beyond a certain point. Qualified labour is hence an important barrier to growth.

Anticyclical policy

Steindl always stressed that it was the study of cyclical problems that shed light on the importance of effective demand. Classical economists failed to see the contribution of effective demand which is not confined to the short run. Steindl strongly opposed to the mechanical separation of cycle and trend in time-series-analyses (Hedrick-Prescott filter etc.). Cycle and trend cannot be separated. In Kalecki's words: The long run is just a series of cycles. "In fact, the long run trend is but a slowly changing component of a chain of short-period situations; it has no independent entity" (Kalecki 1968).

Regarding monetary policy, Steindl was always in favour of cheap money policy as it was exercised under the influence of Keynes during the war. But he also knew that this policy was abandoned already in the 1950s after the experience of inflation. Today, monetary policy is at least in the US seen as an instrument to fine-tune the cycle. Steindl's device, however, was: Keep interest rates as low as possible. He was against the use of monetary policy as an anticyclical instrument since it would destabilise the expectations of entrepreneurs. The stabilisation of expectations was a major target for him.

Steindl strongly favoured fiscal policy as an anticyclical instrument: The best way to stop an excessive boom or to overcome a recession is anticyclical public investment.

Regarding devaluations, he was rather sceptical. Steindl argued against a devaluation of the Austrian schilling since wages were rather low and devaluation would have led to a further decrease in real wages through rising import prices. For him, the proper way to increase welfare in the long run was an appropriate technology policy, not a devaluation. He could not influence policy at that time, but twenty years later politicians shared his view on exchange rate policy.

Reduction of savings rates of private households

For Joseph Steindl (1979, p. 1) the high savings rate was one of the problems since 1975. "The economy is unable to adjust to lower growth rates because its savings propensity is geared to a high one." In 1979, Steindl mentioned a rise in personal savings due to an increase in the standard of living as a possible determinant of low growth. The increase of private savings leads to a lack of aggregate demand and calls for a completely new orientation of economic policy. A reduction of the long-run growth rates of the sixties and seventies would require a lower savings propensity; otherwise the federal budget could not be balanced.

This problem can be analysed with the instrument of the financial balances as changes in financial liabilities are always balanced by changes in financial assets by the same amount and the sum total of the financial balances of all the sectors by definition equals zero. The financial balance of private households is equal to the financial balances of enterprises, the public sector and the foreign sector. A change in the financial balance of private households requires (as a matter of identity) equivalent counterpart changes in the financial balances of the other sectors. The idea of financial balances is a simple tautology, but it may provide a useful framework for an empirical analysis of macroeconomic performance. It is a matter of special interest how these subsequent changes in the financial balances are realised. According to the Keynesian causal relationship a secular increase in the savings rate of households will depress private consumption and therefore lead to a decline in GDP growth rates and business profits as well as an increase in the deficit of the public sector.⁵

Steindl considered household savings to be more troublesome than business savings since they do not stimulate investment. Of course, he did not believe the neoclassical story of savings leading to investment through the interest rate mechanism. There is ample empirical evidence that the influence of interest rates on investment is very weak or even negligible. Nevertheless, mainstream theory still maintains that high savings are necessary for investment, not the other way round. Hayek regarded savings and thriftiness as one of the major achievements of moral. For him, saving is not a question of economics, but of moral.

⁵ For details and some data see Guger, Walterskirchen (1988)

It is important to note that we come to the same political conclusions concerning savings from Steindl's analysis of the financial balances as well as from Keynes' vision of the three stages of post-war development⁶. Following both considerations, household savings have to be reduced, investment has to be stimulated.

A recent example for the validity of this theory is the experience of the United States and other countries with high growth rates in the 1990s: Due to a massive reduction in the savings rate of private households, the economy flourished, and the budget deficit vanished. Relatively low interest rates contributed to the boom of share prices which were a major factor in driving the savings rate of private households down. The financial balance of private households was markedly declining in countries with strong economic growth. This is true for the US (1992-1999), the UK (1992-2000), the Netherlands (1990-2000), Sweden (1994-2000) and Finland (1995-2000). In several countries a decline in the financial balance of private households allowed budget consolidation without too marked negative effects on growth (Italy, Austria).

In the US, the UK and Scandinavia the reduction of household savings in the 1990s did not come about by policy, but by "chance": The enormous increase in asset prices raised private wealth and stimulated private consumption. Steindl was in favour of a redistribution of income to lower income groups with low savings rates. Keynes considered the reduction of working time as an instrument to stimulate private consumption.

Improvement of policy coordination

Steindl emphasized the decline in economic cooperation as one important determinant of the decline in growth rates. The examples for this decline in cooperation are of course manifold. They are reaching from the break down of the Bretton Woods system and the establishment of a flexible exchange rate system in the early 1970s to the erosion of cooperative systems, for instance the nation-wide wage negotiations and the Austrian "Sozialpartnerschaft".

⁶ Keynes had as early as 1943 a realistic vision of the post-war development in his Paper 'The Long-term Problems of Full Employment' (Keynes, 1980, p. 320) where he had envisaged three distinct periods: In the first years after the war, the inducement to invest would be higher than the desired level of savings. To prevent inflation Keynes thought of limiting investment by suitable controls and of limiting consumption by some kind of rationing. For the next 25 years Keynes expected a period in which the „urgent level of investment is no longer higher than the indicated level of savings" (Keynes, 1980, p. 321). Investment and savings would be roughly matched. The main problem in this period was to ensure a high level of employment by preventing business fluctuations and to foster growth by less urgent, but useful investment. This appears to be the situation of the late 50s, the 60s and early 70s. After two or three decades of large scale investment Keynes foresaw that the economy would enter into a third stage with increasing difficulties to find satisfactory outlets for new investment. The (desired) level of savings would exceed the demand for useful investment. Keynes draws the following conclusion already in 1943: We shall have to start on very important changes, aimed at the discouragement of savings and the encouragement of consumption. Keynes gave us here a wonderful example of historical stages which is still not very well known. It is interesting to note that Keynes wrote about certain historical periods with completely different problems and policy solutions.

Ironically the macroeconomic policy of the European Union itself, which has been founded for increasing cooperation between the member states, is the best example of a lack of cooperation. The European Union is currently not able to make use of the potential its economic policy is theoretically equipped with. The link between institutions, i.e. the question of institutional conflicts and complementarities, is unsolved. Of course, successful policy coordination in a small economy as Austria in the past has been much easier than in the multi-tier system of the EU.

There are several levels of potentially improving policy outcomes by cooperation: This starts with an improved coordination between national fiscal policies within the Stability and Growth Pact and establishing certain guidelines for national and regional wage setting. It continues with the cooperation between monetary and fiscal policy both of which are at least partly oriented on real-term variables, and coordination between wage and monetary policy which is essential in regulating inflation. Currently the independence of European policy institutions is hindering effective policy coordination. For instance cooperation between fiscal and monetary policy in fighting recessions is restricted to the exchange of opinions at the level of the "macroeconomic dialogue".

But in the end it is not a lack of willingness to cooperate but the political attitudes favouring price stability, budget consolidation and competition between countries rather than growth and full employment which is forcing Europe into a longer period of poor economic performance.

Conclusion

Comparing Steindl's ideas on growth policy with the mainstream – the Brussels/Paris consensus - we see large differences in most other areas. Steindl stressed the positive demand-side effects of the public sector and the contribution of lower household savings and anti-cyclical policies to growth. The economic mainstream today praises the efficiency effects of a declining public sector, the importance of high savings for investment and neglects anti-cyclical policies which are seen as an impediment to budget consolidation. Steindl called for innovation and education policies, the mainstream favours deregulation and privatisation. Steindl and the Keynesians regarded high unemployment as a consequence of low growth. Today many economists see low growth as a result of labour market rigidities (too high wage costs and too short working hours). They neglect cooperation and regard competition between countries ("head to head") as a growth driver. So far, however, the economic results of the "new" policy orientation – the EU/OECD consensus - have been disappointing.

Box: Differences in growth strategies

| | |
|---|---|
| <i>Steindl-Kaleckian growth policy</i> | <i>Current mainstream on growth policy</i> |
| Full employment as main political concern | Price stability and budget consolidation as main political concerns |
| Demand as growth driver | Supply as growth driver |
| Higher effective demand to raise employment | Higher labour market flexibility to raise economic growth |
| Technology and educational policy | Deregulation and privatisation |
| Lower household savings | Higher savings (for investment) |
| Stable or rising wage share | Falling wage share (real unit labour costs) |
| Anti-cyclical policy (cycle and trend have the same determinants) | No active anti-cyclical policy (irrelevant for growth path) |
| Rise of public sector promotes growth (through effective demand) | Decline and restructuring of the public sector (efficiency) |
| Tax coordination | International tax competition |
| International cooperation | International competition (location) |

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