

New study published:

“Is economic growth over? Why state, citizen and business may be facing a new normal”

Berlin, 04. October

Economic growth in industrial nations has steadily decreased over the years. This trend is underpinned by structural factors such as demographic change and increasing inequality. Those states affected would therefore be well-advised to prepare for dwindling growth.

Growth is the ultimate goal – at international summits, in economics, in the German constitution or in party manifestos. “The kind of growth that serves humankind is increasingly difficult to achieve”, says Dr. Reiner Klingholz, Director of the Berlin Institute for Population and Development. In all industrial nations, growth has already drastically declined. Take Germany, for instance: While the ten-year average growth rate in the 1950s was roughly eight percent, this figure halved in the 1960s, reaching merely 1.5 percent on average between the years 2011 and 2016. Meanwhile, the first emerging countries, too, are experiencing a trend towards diminishing growth.

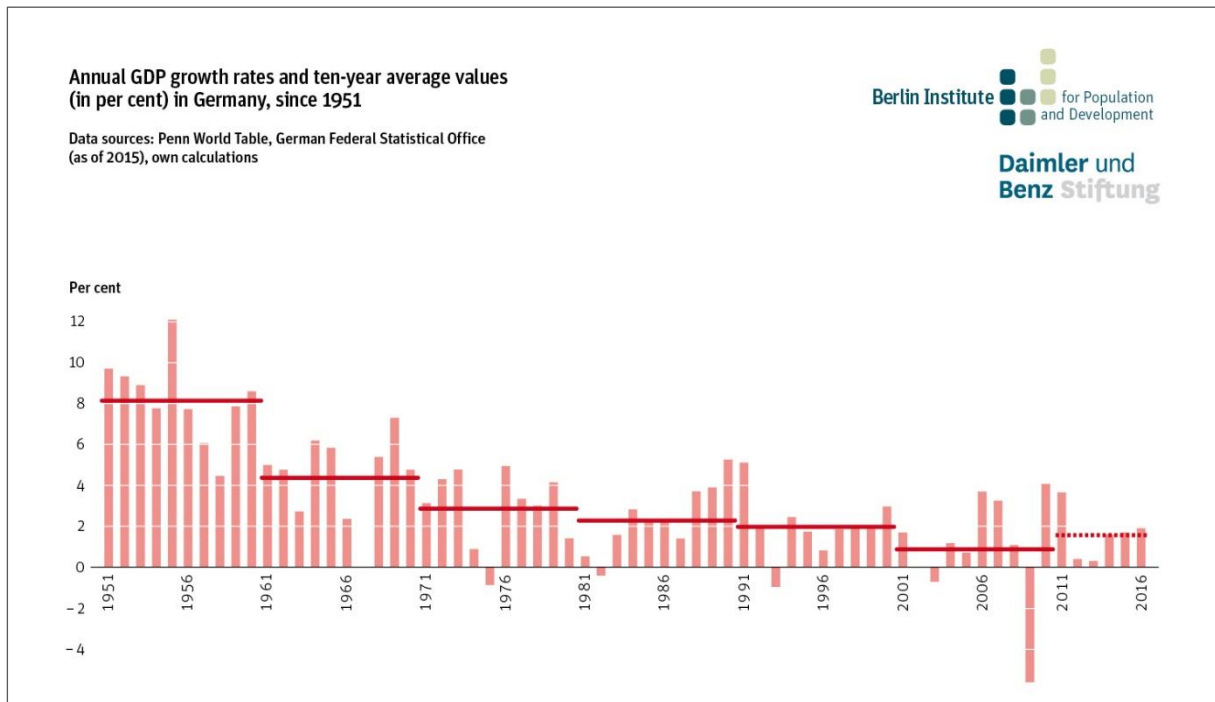
Harvard Professor Lawrence Summers, former Chief Economist of the World Bank, speaks of a secular stagnation in developed countries – weak economic growth persisting over a long period of time. The most important drivers of growth are losing momentum: population growth is coming to a halt, inequality is mounting and limits the consumption potential of lower income groups, and environmental damage is exerting a decelerating effect on economic development. “In order to boost economic growth, governments and central banks are resorting to classic economic policy instruments, such as publicly-funded investment programs or low interest rates”, Klingholz explains. “Tackling structural problems using cyclical economic instruments is futile. Debt will only grow further as a result.”

The problem is that state, business and society rely on steady growth. Klingholz: “In our current organisational form, the state is dependent on economic growth to service its debts or to maintain efficient social systems for an aging society.” The economy likewise depends on growth. Without growth, businesses need to lower their profit expectations and investment needs and anticipate that technological progress will continue to slow down. This threatens jobs. Increasing unemployment, coupled with a weak economy, may undermine people’s trust in the promise that they are going to be better off than preceding generations. What helped democracies emerge and survive in the past is the broad distribution of wealth. A stagnating economy poses hitherto unknown challenges.

Whether declining growth will yield an “ecological dividend”, due to the production of fewer goods and reduced consumption of energy and raw material, is uncertain, argues Klingholz. “It is equally conceivable that policy makers will react with cyclical interventions and disregard ecological effects. They could renege on environmental agreements and revitalise old technologies such as coal combustion in order to stimulate the economy in the short term.” Politics and business will need to focus growth on areas that clearly help to improve the environmental situation and push those companies out of the market that are responsible for major environmental damages. Only then could secular stagnation bring with it overall ecological benefits.

So far it is unclear whether the observable decline in growth represents a secular stagnation. In any case, the countries affected should prepare a “plan B” in view of a probable long-term economic

contraction and find ways to rid themselves of their strong reliance on growth – according to the Berlin Institute. They need to address the question of how to ensure the welfare of their people in the face of shrinking or completely absent economic growth.



Declining economic growth in Germany since the end of World War II – a secular stagnation? The Berlin Institute for Population and Development examines this issue in its current study titled "Is economic growth over"?

Download the PDF free of charge here:

<http://www.berlin-institut.org/en/publications/studies-in-english/is-economic-growth-over.html>

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