December 20, 2007

Term

Growth Accelerations

Definition[1]

The term Growth Accelerations refer to an increase in per-capita growth of at least two percentage points that is sustained for at least eight years and is at least 3.5 percent per year at the period's end. In addition, the post-acceleration output has to exceed the pre-acceleration peak level of income.

Context

Accelerating the process of economic growth in a sustained manner is a central policy issue in economics. By focusing on turning points in growth performance,[2] the research addresses a key question facing decision makers: What policies most contribute to Growth Accelerations?

Causes of Growth Accelerations

Growth accelerations tend to be correlated to increases in large real currency depreciations as well in increases in investment and import and export ratios.

The research distinguishes between sustained and unsustained growth episodes.[3]

Policies that are only conducive to unsustained episodes are: positive terms of trade shocks resulting from a real exchange rate depreciations[4] and financial liberalization which increases the flow of capital.[5]

Policies that are conducive to sustained episodes are: positive political change which strengthens and improves democratic institutions and the opening of the economy to international trade.[6]

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1 Based on: Ricardo Hausmann, Lant Pritchett, Dani Rodrik, "Growth Accelerations", **NBER Working Papers Series**, (Harvard University, 2004).

2 The research examines 110 countries between the years 1957-1992.

3 Sustained episodes are those where the growth rate remained above 2 percent a year after the eight year horizon and ten years later on.

4 Quantitative analysis of growth episodes in Israel show that exogenous variables such as world trade and security events had a larger impact on growth episodes than policy variables did. See: Karnit Flug and Michel Strawczynski, "Persistent Growth Episodes and Macroeconomic Policy Performance in Israel", **Bank of Israel**, July 2007.

5 Financial liberalization is comprised of policies which ease or lift bank interest rate ceilings, lower compulsory reserve requirements, reduce government interference in credit allocation decisions and privatize banks and insurance companies.

6 Countries have reduced barriers to trade in previous decades including doing away with marketing boards, socialist economic regimes, unstable macroeconomic environments (e.g. presence of a large black-market premium for foreign currency), and tariff and non-tariff barriers.

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Despite the statistical significance of the policy variables, they explain very little of the growth pattern revealed by the data[7]as they can not predict the turning points of growth accelerations.[8]

Examples

Eighty episodes of growth acceleration have been identified. Among the developed countries which have undergone a growth acceleration in the 1980's and the early 1990's are: Chile (1986), Spain (1984), Ireland (1985) and South Korea (1984).

End.

[7] The Reut Institute contends that the following common engines can be found in countries that have undergone a Leapfrog in Quality of Life: a shared vision of the country's future and its position in the global economy; cooperation between government agencies and collaboration with employers, labor, and civil society and the ability to design, plan, manage and execute policy.

[8] Growth economics literature is unable to explain fully two thirds of the differences in inter-country growth rates. See: Elhanan Helpman, **The Mystery of Economic Growth**, (Boston: Harvard College, 2004).

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