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Will Too Little Capital Stall Global Growth? (Abstract)

By **Edwin S. Rubenstein**

The world economy has obstinately kept growing, albeit lethargically, even while central bankers have put growth below price stability in their order of monetary-policy priorities. Now evidence is mounting that the world's slow-growth period may break out into more vigorous expansion. With prices under control for now, economists are beginning to ask whether a new cloud is casting its shadow: Is there enough capital to adequately fund continued world growth?

A capital shortage - with high rates of interest - would exert downward pressure on global stock markets. In short, growth would sputter and a global slowdown would ensue. This scenario doesn't impress Edwin Rubenstein, an economist himself as well as a political and policy consultant, even though a number of prominent economists, including Jacob Frenkel, former chief economist at the International Monetary Fund, have worried recently that there is not enough capital to go around.

Mr. Rubenstein argues that mature economies - like those of the United States, Europe and Japan - require less savings and investment, in relative terms, than they did when they were less mature. He points to the move of their economies away from capital-intensive sectors like manufacturing into less capital-intensive sectors like services. Furthermore, he states, this shift to services is making obsolete the old economic model of investment which he claims now seriously underrepresents the investment spending of developed countries.

Providing another reason for optimism, Mr. Rubenstein suggests that high savings rates in the developing countries (24.6 percent of G.D.P. in 1994) will reduce the projected \$2 trillion investment gap over the next 10 years between domestic savings in developing countries and potentially profitable investments there. His conclusion is that over the long haul, capital flows from the developed world, when combined with these high rates of savings, are likely to be sufficient to propel much of the developing world into the ranks of economically advanced nations.

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