

INCREASED THRIFT AND ECONOMIC GROWTH

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Economic texts generally suggest that an economy can attain a higher level of economic growth by reducing consumer goods production and employing the released resources to expand its output of capital goods.¹ The argument is usually depicted graphically through the use of transformation curves as shown in Figure 1. If the economy chooses to produce at some relatively high consumption level such as point A on PP it can only attain the intermediate transformation curve P'P' in the succeeding time period, as shown on the graph. However, should the economy decide on an output mix consisting of more capital goods and less consumer goods shown as point B, it can reach the outside transformation curve P''P'' in the following time period. This difference in outcomes follows from the fact that capital is both a good and a resource so that, *ceteris paribus*, the addition to the economy's resource base is greater at point B than at point A.

Given the acceptance of the above statements, what about the impetus for altering the output mix in favor of increased capital goods production? That is, what is a vehicle for effecting a movement from point A to point B on PP in Figure 1? It is conventionally assumed that increased thrift (reduced consumption) will enable this change to be brought about. It is this particular impetus for the movement from point A to point B with which this paper is concerned.

While it is true that the production possibilities curve presents various combinations of attainable physical output levels, whether an economy is at any point on or within the transformation curve depends ultimately on the level and composition of aggregate demand. A decrease in the consumption-saving ratio would lead to a reduction in aggregate demand unless the increase in saving (fall in consumption) is equivalently matched

1. See, for example, Heinz Kohler, *Scarcity and Freedom: An Introduction to Economics*, Lexington, Massachusetts: D. C. Heath and Company, 1977, p. 368; Thomas F. Pogue and L. G. Sgontz, *Government and Economic Choice: An Introduction to Public Finance*, Boston, Massachusetts; Houghton Mifflin Company, 1978, p. 12.