

Malthus, Marx, and Modern Growth

Kenneth Rogoff | Harvard University | 19 March 2014

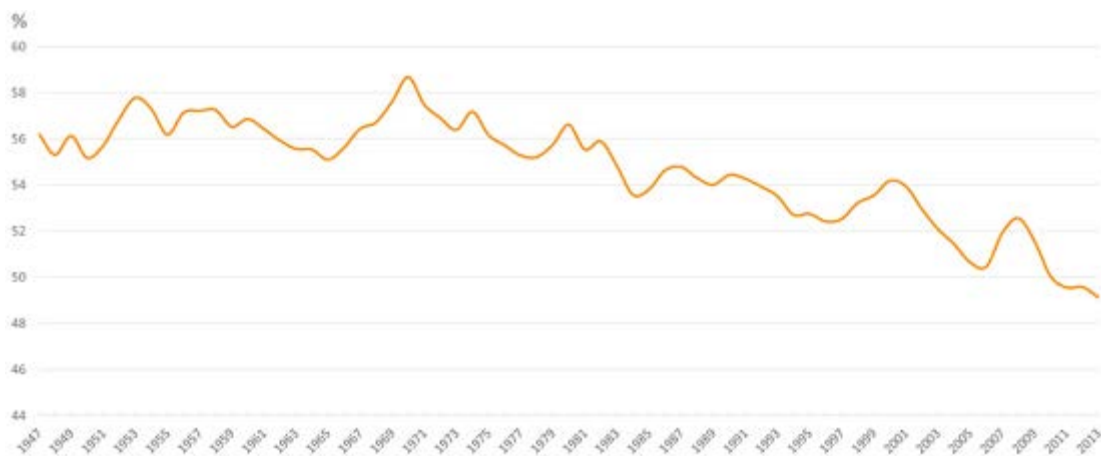
The promise that each generation will be better off than the last is a fundamental tenet of modern society. By and large, most advanced economies have fulfilled this promise, with living standards rising over recent generations, despite setbacks from wars and financial crises. In the developing world, too, the vast majority of people have started to experience sustained improvement in living standards and are rapidly developing similar growth expectations.

But will future generations, particularly in advanced economies, realise such expectations? Though the likely answer is yes, the downside risks seem higher than they did a few decades ago.

So far, every prediction in the modern era that mankind's lot will worsen, from Thomas Malthus to Karl Marx, has turned out to be spectacularly wrong. Technological progress has trumped obstacles to economic growth. Periodic political rebalancing, sometimes peaceful, sometimes not, has ensured that the vast majority of people have benefited, albeit some far more than others.

As a result, Malthus's concerns about mass starvation have failed to materialize in any peaceful capitalist economy. And, despite a disconcerting fall in labor's share of income in recent decades, the long-run picture still defies Marx's prediction that capitalism would prove immiserating for workers. Living standards around the world continue to rise.

Figure 1: Working for less
Wage share of US national income



Source: US Bureau of Economic Analysis

But, past growth performance is no guarantee that a broadly similar trajectory can be maintained throughout this century. Leaving aside potential geopolitical disruptions, there are some formidable challenges to overcome, mostly stemming from political underperformance and dysfunction.

The first set of issues includes slow-burn problems involving externalities, the leading example being environmental degradation. When property rights are ill-defined, as in the case of air and water, government must step in to provide appropriate regulation. I do not envy future generations for having to address the possible ramifications of global warming and fresh-water depletion.

A second set of problems concerns the need to ensure that the economic system is perceived as fundamentally fair, which is the key to its political sustainability. This perception can no longer be taken for granted, as the interaction of technology and globalisation has exacerbated income and wealth inequality within countries, even as cross-country gaps have narrowed.

Until now, our societies have proved remarkably adept at adjusting to disruptive technologies; but the pace of change in recent decades has caused tremendous strains, reflected in huge income disparities within countries, with near-record gaps between the wealthiest and the rest. Inequality can corrupt and paralyse a country's political system – and economic growth along with it.

The third problem is that of aging populations, an issue that would pose tough challenges even for the best-designed political system. How will resources be allocated to care for the elderly, especially in slow-growing economies where existing public pension schemes and old-age health plans are patently unsustainable? Soaring public debts surely exacerbate the problem, because future generations are being asked both to service our debt and to pay for our retirements.

The final challenge concerns a wide array of issues that require regulation of rapidly evolving technologies by governments that do not necessarily have the competence or resources to do so effectively. We have already seen where poor regulation of rapidly evolving financial markets can lead. There are parallel shortcomings in many other markets.

A leading example is food supply – an area where technology has continually produced ever-more highly processed and genetically refined food that scientists are only beginning to assess. What is known so far is that childhood obesity has become an epidemic in many countries, with an alarming rise in rates of type 2 diabetes and coronary disease implying a significant negative impact on life expectancy in future generations.

Many leading health researchers, including Kelly Brownell, David Ludwig, and Walter Willett, have documented these problems. Government interventions to date, mainly in the form of enhanced education, have proved largely ineffective. Self-destructive addiction to processed

foods, which economists would describe as an externality, can lower quality of life for those afflicted, and can eventually lead to externalities for society, such as higher health-care costs. Again, despite a rising chorus of concern from researchers, political markets have seemed frozen.

All of these problems have solutions, at least in the short to medium run. A global carbon tax would mitigate climate risks while alleviating government debt burdens. Addressing inequality requires greater redistribution through national tax systems, together with enhanced programs for adult education, presumably making heavy use of new technologies. The negative effects of falling population growth can be mitigated by easing restrictions on international migration, and by encouraging more women and retirees to enter or stay in the workforce. But how long it will take for governments to act is a wide-open question.

Capitalist economies have been spectacularly efficient at enabling growing consumption of private goods, at least over the long run. When it comes to public goods – such as education, the environment, health care, and equal opportunity – the record is not quite as impressive, and the political obstacles to improvement have seemed to grow as capitalist economies have matured.

Will each future generation continue to enjoy a better quality of life than its immediate predecessor? In developing countries that have not yet reached the technological frontier, the answer is almost certainly yes. In advanced economies, though the answer should still be yes, the challenges are becoming formidable.

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