The economic trend is our friend

J. Bradford DeLong | University of California | 08 September 2016

These are days of grave disillusionment with the state of the world. Sinister forces of fanatical, faith-based killing – something that we in the West, at least, thought had largely ended by 1750 – are back. And they have been joined by and are reinforcing forces of nationalism, bigotry, and racism that we thought had been largely left in the ruins of Berlin in 1945.

In addition, economic growth since 2008 has been profoundly disappointing. There is no reasoned case for optimistically expecting a turn for the better in the next five years or so. And the failure of global institutions to deliver ever-increasing prosperity has undermined the trust and confidence which in better times would serve to suppress the murderous demons of our age.

Pessimism understandably comes easy these days – perhaps too easy. In fact, enthusiastic and positive contrarianism is in order. If we look at global economic growth not just five years out, but over the next 30 to 60 years, the picture looks much brighter.

The reason is simple. The large-scale trends that have fueled global growth since World War II have not stopped. More people are gaining access to new, productivity enhancing technologies, more people are engaging in mutually beneficial trade, and fewer people are being born, thus allaying any continued fears of a so-called population bomb.

Moreover, innovation, especially in the global north, has not ceased even if it has possibly slowed since the 1880s. And while war and terror continue to horrify us, we are not witnessing anything on the scale of the genocides that were a hallmark of the twentieth century.

Fortunately, these major trends are likely to continue, according to data from the Penn World Table research project, the definitive source for summary information on global economic growth. According to PWT data on average, real (inflation-adjusted) per capita GDP, the world in 1980 was 80% better off than it was in 1950, and another 80% better off in 2010 than it was in 1980. In other words, our average material wellbeing is three times what it was in 1950.

Tripling global material wellbeing may sound like a lot, but if anything it's a low estimate. The way we measure real GDP accounts for all the goods and services being produced, but it doesn't properly account for value that exists but cannot be measured – such as the immense benefits that accrue to social-media users from services that cost them nothing.

More than ever before, we are producing commodities that contribute to social welfare through use value rather than market value. Some would argue that this is nothing new but that argument is unpersuasive given the sheer bulk of time we now spend interacting with information-technology systems where the revenue flow is, at most, a tiny trickle tied to ancillary advertising.

The PWT data also allow us to sort by country. So let's consider the cases of China and India, which comprise 30% of humanity. China's real per capita GDP in 1980 was 60% lower than the world average but today it is 25% above it. India's real per capita GDP in 1980 was more than 70% below the world average, but India has since closed that gap by half.

This is indisputable progress of one kind. But, to avoid painting too rosy a picture, we should also consider global inequality. The world's countries have shown no sign since 1950 of converging at a shared level of prosperity. According to the PWT data, two-thirds of all countries in 1950 had real per capita GDP veering above or below the global average by at least 45% and by as much as 225%. By 1980, that spread had widened to at least 33% and as much as 300%. Today, it is 28% and 360%, respectively.

Still, all told, the world economy is a more equal place for the average individual today than it was in 1980. This is partly thanks to a series of strong leaders, such as those in China since Deng Xiaoping, and in India since Rajiv Gandhi. But there are no more countries as big as China and India to stand up and make significant leaps in development and few observers are confident that Chinese President Xi Jinping and Indian Prime Minister Narendra Modi will match their predecessors' growth legacies.

Indeed, such episodes of prolonged, rapid growth may become a thing of the past if the world economy has no more opportunities to accelerate technology transfer, and if more countries continue to mature from high-growth developing economies to more steady-state developed economies.

It may well be true that the engine of innovation itself will run more slowly. But it will still run, and people will still adopt new technologies, and the world economy will still grow. Short of a nightmare scenario like terror-driven nuclear war, you can expect my successors in 2075 to look back and relish that, once again, their world is three times better off than ours is today.

Beyond that, things are harder to predict. If we fail to act now to slow and reverse global temperature trends, climate change will be the specter stalking the post-2080 world. In that case, our great-grandchildren will have little to thank us for.

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