The sixty-year downward trend of economic growth in the industrialised countries of the world

Alan Freeman, University of Manitoba

January 2019

GERG Data Group Working Paper, no.1[1]

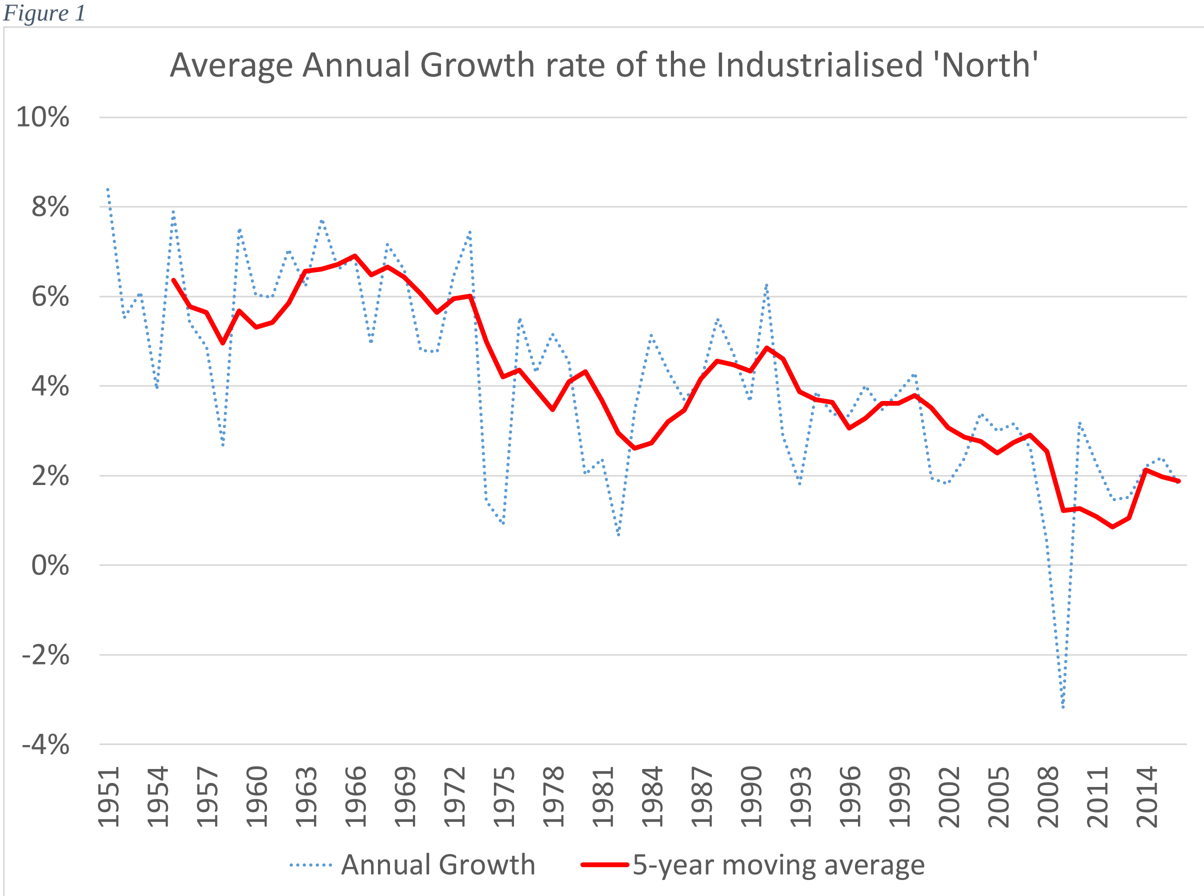
[1] Please cite as: Freeman. A.2019. *The sixty-year downward trend of economic growth in the industrialised countries of the world.* GERG Data Group working paper No.1, January 2019. Manitoba: Geopolitical Economy Research Group. Comments to alan.freeman@umanitoba.ca are welcome.

The sixty-year downward trend of economic growth in the industrialised countries of the world

THE POSTWAR DECLINE OF THE NORTH: A STRONG, ROBUST, LONG-TERM HISTORICAL TREND

This provisional report, using data from a range of authoritative sources, studies the long-term postwar economic growth of the industrialised North and shows that, contrary to what is widely believed, this has fallen continuously, with only brief and limited interruptions, since at least the early 1960s. The trend is extremely strong and includes all major Northern economies without exception. It is confirmed by a wide range of different measures of GDP and growth including both 'Purchasing-Power-Parity' and standard real GDP measures, and a range of methods for aggregating the data from different countries. It is thus an extremely well-confirmed historical trend.

Figure 1



Source: see note on datasources at the end of this report

This result sheds new light on the current difficulties of the world economy and has many profound implications. It conflicts with any idea that the present crisis or 'Great Depression' as it is increasingly referred to even in the mainstream literature, originates in some recent upset or régime of accumulation such as neoliberalism or financialisation. In fact, the roots of the present crisis lie in a long historical process which set in very shortly into the 'Golden Age' of postwar expansion.

It sheds light on many recent phenomena such as the rise of Trumpism and the far right, the rapid erosion of the traditional social-democratic and liberal centre in Western politics, the dramatic expansion of social unrest in much of the Western world and the growing economic and military tensions now besetting North-South relations.

It conflicts with any idea that the problems arising can be solved either in the medium or long term by limited measures whether of a left character such as fiscal and monetary stimuli, or of a right character, notably austerity, but also the free-market economic nationalism of Donald Trump and other such figures.

Finally, it stands in stark contrast to the pattern in the 'global South', including but not confined to China, which will be the subject of a subsequent report.

This report draws on a comprehensive dataset on macroeconomic history which is being assembled as part of the data project of the Geopolitical Economy Research Group (GERG: www.geopoliticaleconomy.org) at the University of Manitoba.

The results are provisional pending more detailed study and are intended to give researchers early access to these important findings. We advise caution in citing them; however, the GERG dataset is fully transparent and the data sources it relies on are all in the public domain. Researchers are therefore welcome to refer to these data sources and draw their own conclusions.

How the IMF's short-term view obscures historical reality

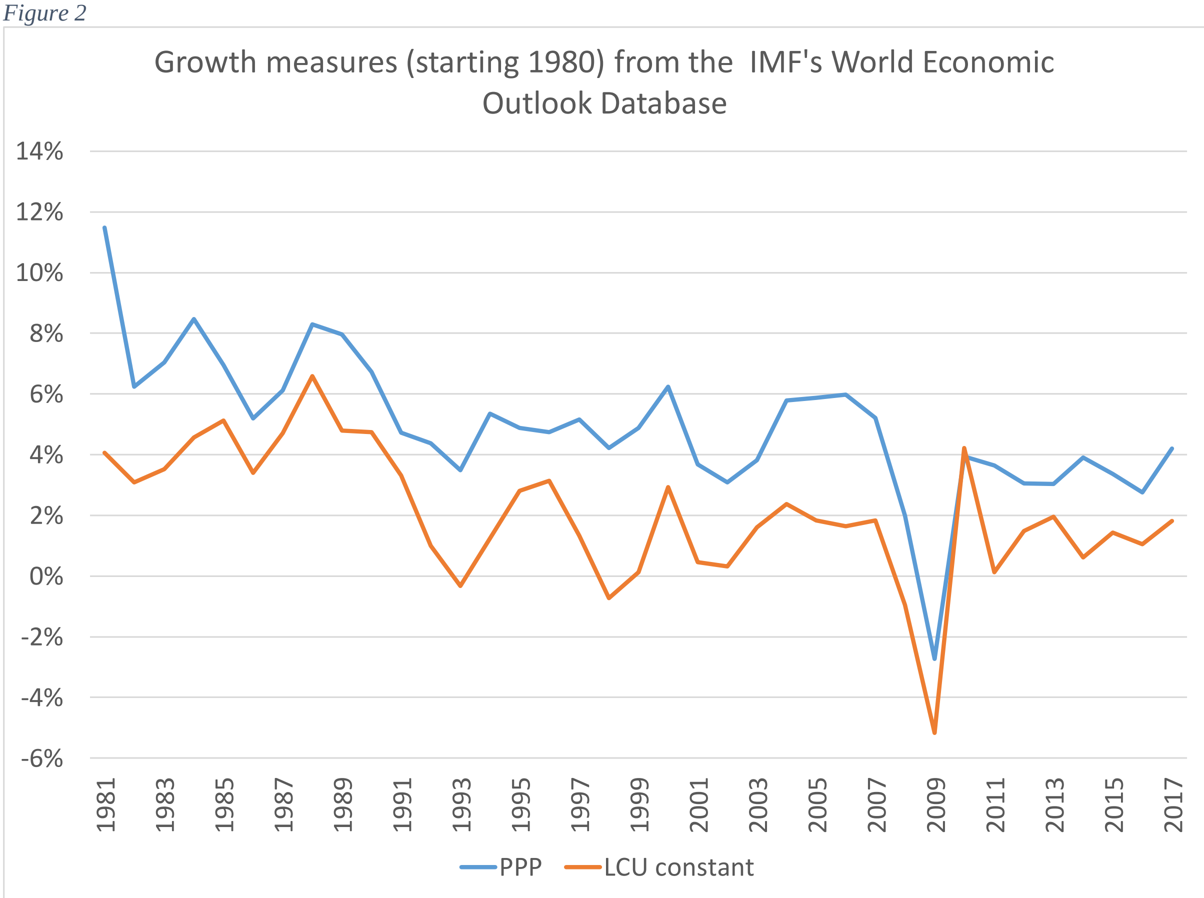
The International Monetary Fund's *World Economic Outlook*, which has appeared twice yearly since 2001, is arguably the most influential regular economic report of modern times. The economic press treats it as an authoritative statement on the health of the world economy, while the mass media routinely reproduce its conclusions as 'News' – that is to say, as a statement of fact.

The headline figure that attracts greatest attention is the IMF's growth forecast. Surprisingly, however, neither the IMF nor the press spends much time on the most useful guide to the future, namely, the past. What are the long-term historical trends at work in the world economy which the IMF and its followers hope to descry?

One difficulty is that the IMF's publicly available 'World Economic Outlook' dataset begins in 1980. Any analysis of historical trends, based on IMF data, therefore starts long after the Second World War and, crucially, six years after the great crash of 1974, in which the problems of the postwar boom first became obvious to all.

Among the many problems which arise from this data limitation is that it deprives us of a historical perspective because it offers no comparator. Today a meagre growth rate of 3% is be treated as evidence of economic success; yet in the 1950s, rates of 6 per cent and higher were routine. This is because of an historical event, the Second World War, which brought in its wake one of the greatest and most prolonged economic expansions since the Industrial Revolution. What has happened, between then and now? Why should we now treat, as a cause for celebration, a growth rate that would have been regarded, fifty years ago, as a signal for alarm and despondency?

Figure 2



Recent advances in data provision make it possible to correct this weakness. Indeed, the IMF itself publishes, aside from its better-known World Economic Outlook (WEO) database, its much longer-term International Financial Statistics (IFS) database going back, in many cases, as far as 1946.

A second and authoritative source (Forda et al 2016) is published by the National Bureau of Economic Research and provides GDP and other data on 16 countries including all major economies from the industrialised world except those from the 'Newly-Industrialised Countries' or NICS |(South Korea, Taiwan, Singapore and Hong Kong) which inappropriate inclusion in a study of long-run historical trends. Our definition of the 'North', for consistency, consists of these 16 countries throughout this report.

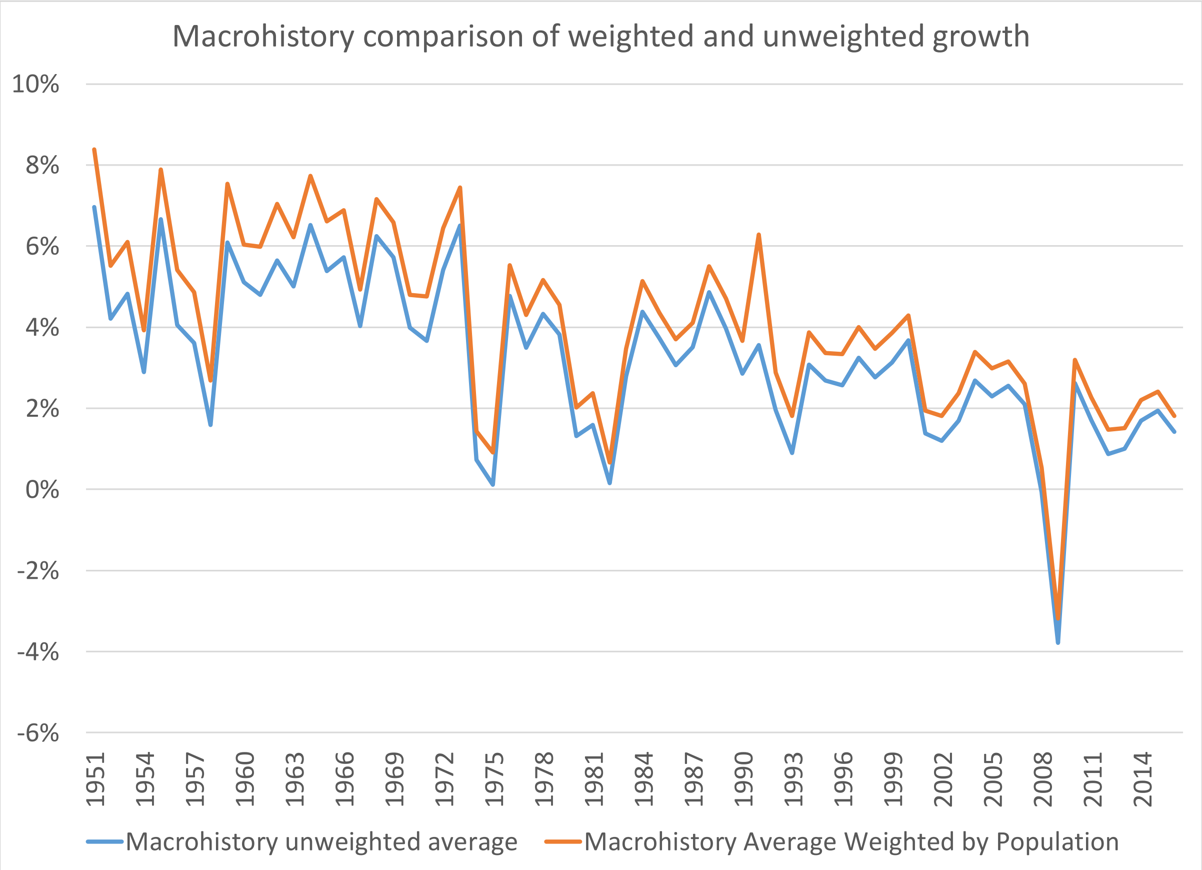
A third source is the very long-run dataset compiled initially by Angus Maddison and maintained by the Growth Centre at Gronewegen. This data calculates GDP on the basis of 'Purchasing Power Parity' (PPP) which attempts to adjust for the difference in prices in different countries, principally for the purpose of making inter-country comparisons. Whilst PPP data introduce many problems into the study of growth and especially inequality (Freeman 2009) we have included them in this study precisely in order to investigate whether the qualitative finding that North country growth rates have declined continuously for a prolonged historical period is sensitive to the way GDP is defined or measured. The very fact that Maddison's data leads to the same qualitative conclusion is a strong indication that result is robust and not an artefact of the measure adopted.

As the GERG data project develops, our aim is to extend the range of sources available to researchers in the format offered by this project, precisely so that such sensitivity tests may be conducted. We refer to this approach as 'data pluralism'.

To introduce the historical perspective that these datasets provide, consider first figure 1 at the start of this paper. This chart provides a simple average of the growth rates of each of the 16 countries in our definition of the North.

Such an average could reasonably be criticized on the grounds that, if individual country growth rates are widely different, or exhibit a different trend, and if a small country or group of countries show a more sharply declining trend than the others, then the declining trend will be exaggerated. The IMF is itself aware of this problem, which arises from the quite fundamental cause that 'real' output or GDP is normally measured in terms of the prices in each country, and therefore use the currency of that country. The GDP of these countries cannot therefore be simply added up, for example by adding the UK's 2016 real GDP of £6,801,968,640 to the US's real GDP of $34,667,401,216, because the units are different.

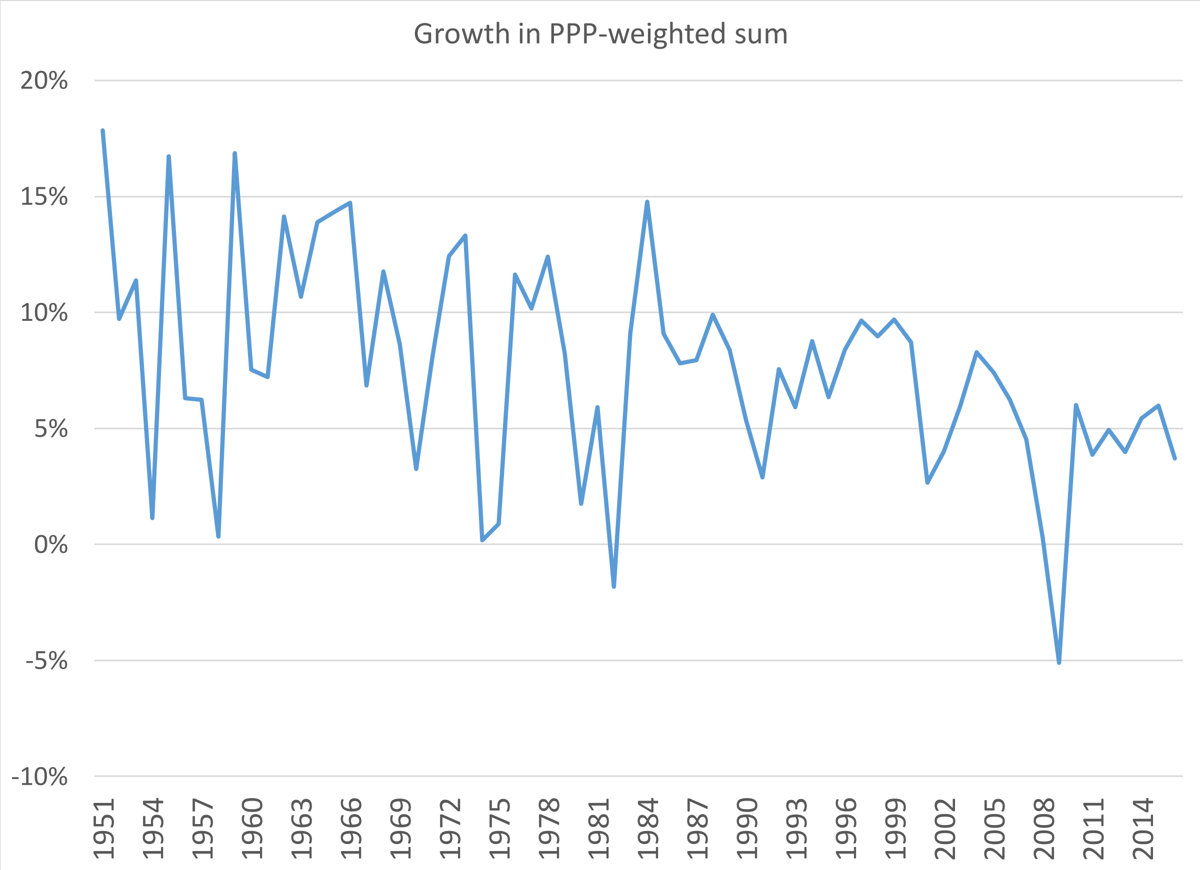
Figure 3



It is however more reasonable to construct some kind of average of the *growth rates* of GDP because growth rates are in principle dimensionless, that is to say, they are not expressed in any particular currency. The question is, however, what weight should be assigned to each country. The IMF weights countries, within each of its country groups, by the share of their

GDP, measured in PPP terms, in world GDP, and averaged over three years.(IMF 2018). This has the disadvantage that it can appear to be more volatile than it in fact is, since the weights may fluctuate even though the growth rates do not. An alternative shown in Figure 3 is to weight growth rates by population.

Figure 4



Nevertheless, as Figures 3 and 4 show, the *trend* in growth rates is quite insensitive to the method of weighting. Measured either as a simple average, as an average weighted by population, or as an average weighted by PPP share, the trend is almost identical.

There is a reason behind this, shown in figures 5 and 6: the declining trend in GDP growth applies *across the board to all Northern Countries.* This is indeed one of the more important conclusions of this report: we face, not merely a decline in the GDP growth rate of one country (for example, the United States, whose decline has been studied more exhaustively) but of an entire group – the advanced or industrialised countries – whose growth rates follow the same trend and indeed, have converged. The trend observed is thus highly likely to be *systemic* – accounted for by the structure of the world economy as a whole – than being a result of the problems or vagaries of one particular country.

Figure 5,comparing the long-term average growth rate of the 16 countries in our group, shows that these averages lie in any case in a quite narrow band between 2.5% and 3.5% with only Japan and Spain above the top threshold and only Denmark and the United Kingdom below it. Figure 6 is even more striking; it partitions growth into that which took place before 1974 and that which took place after. The importance of this separation point is that 1974 .- dubbed the ‘Second Slump’ by Ernest Mandel (1978), the first major recession since 1929, signalled- in retrospect – the end of the postwar ‘Golden Age’ boom. Whilst, as our data shows, decline had already set in at least 10 years prior to this slump, it signalled the definitive end of the postwar expansion of the industrialised North. A second reason for its importance, as shown in Figure 6, is that almost all the ‘catch-up’ growth of contender economies, notably Japan and Spain, took place in this period. ‘Catching up’, at least in the North, is a strictly boom-time phenomenon.

Figure 5

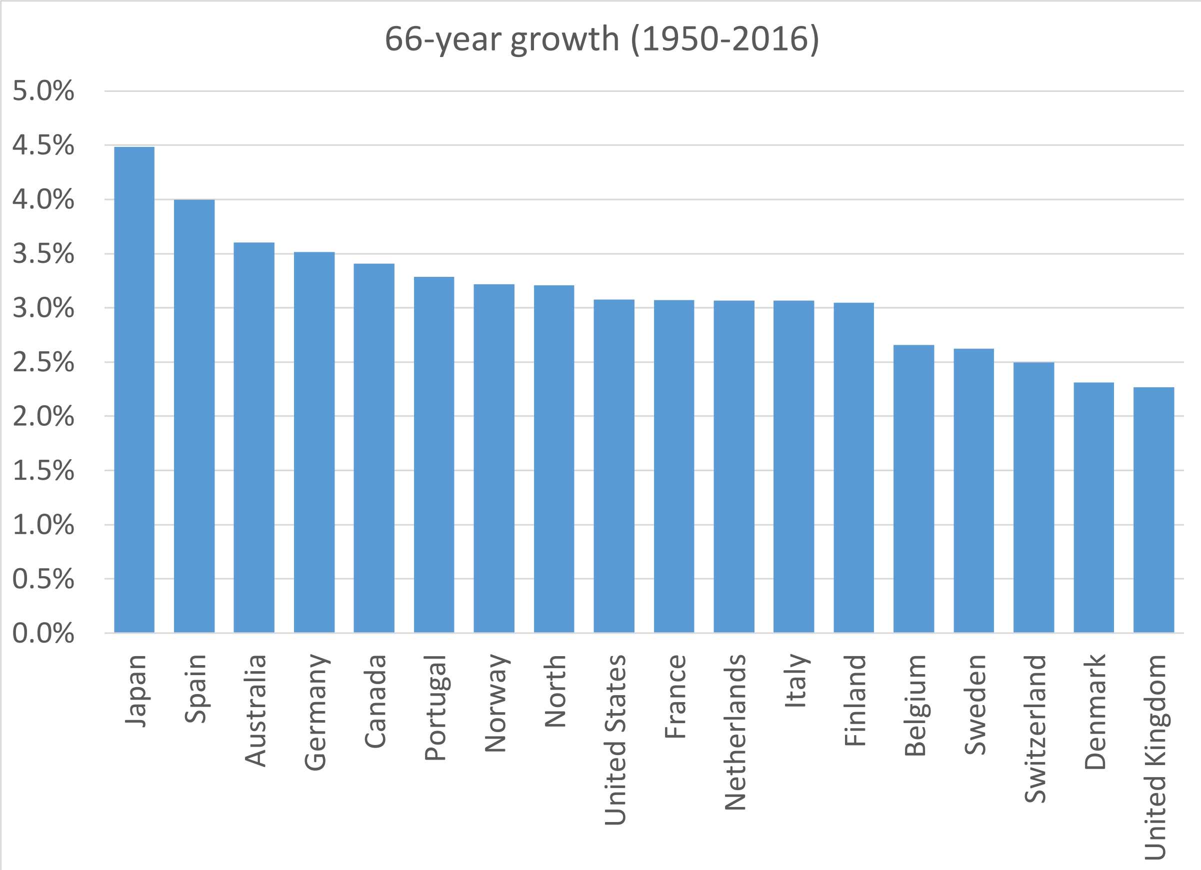
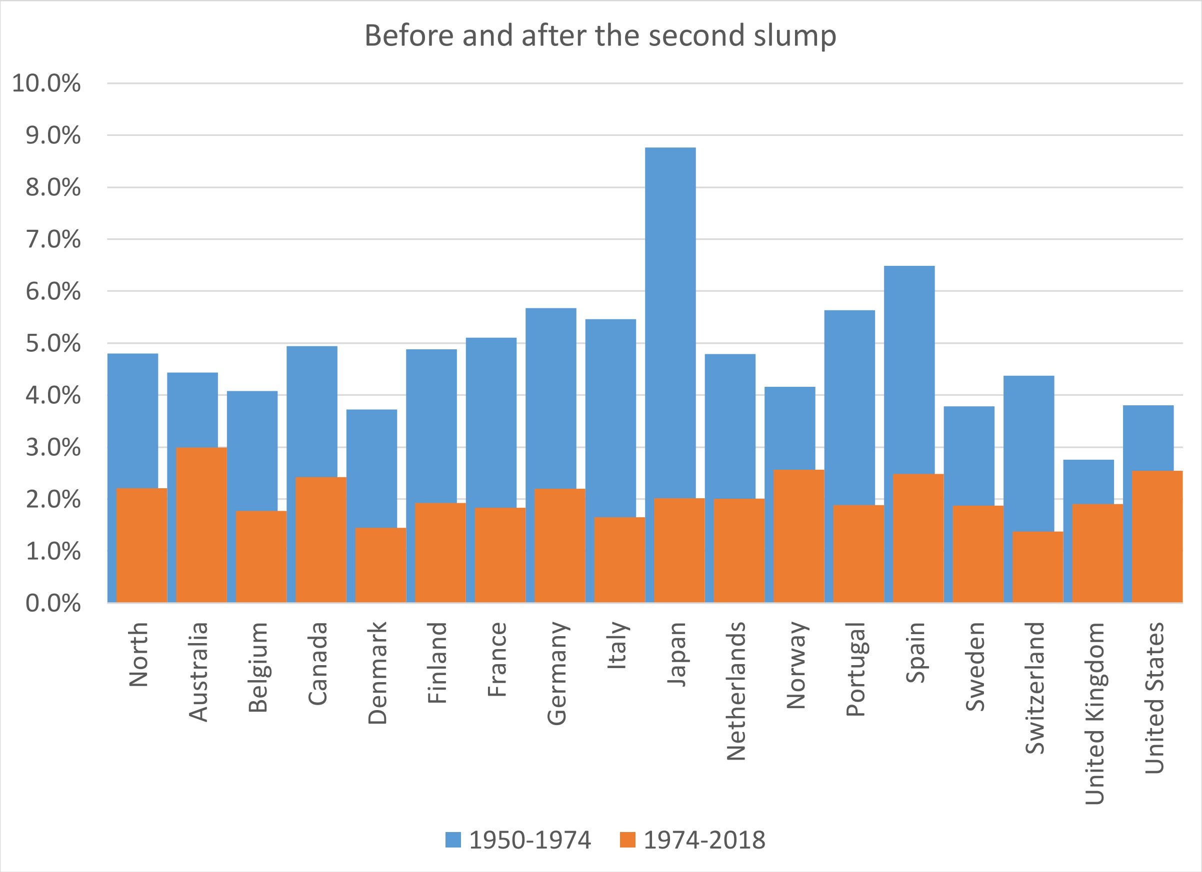


Chart 6 also casts doubt on the idea that, after 1974, there was some kind of ‘recovery’ of the type hypothesized, for example, by Dumenil and Levy (2004), or that capitalism entered a new phase of stable or accelerated growth as suggested in the literature on Social Structures of Accumulation. A proper historical comparison strongly suggests that 1974 ushered in a profound slowdown in the whole of the economy of the North, punctuated only by an 8-10-year following the double crises of 1981.

This brief recovery is not without significance, as we shall study in the next paper in this series, on the growth of the South: essentially, we suggest, it arose from a systematic attempt to displace the economic problems of the North not only onto the workers of the North, as is often acknowledged, but onto entire peoples of the ‘Southern’ countries. The key point, however, is that this attempt did not succeed – arguably a prime reason for the current extreme trade tensions now racking the political economy of the current world order.

Figure 6



THE USA: EXCEPTION, OR LEADER OF THE PACK?

The convergence, and similarity, of North country growth rates, leads to an important question: how does the performance of the United States, the world's largest capitalist country, compare with that of its industrialised rivals? Does it, as perhaps Donald Trump would sustain, outperform these rivals, setting an example to the world? Is it alternatively, as many commentators suggest, an exception to a general pattern of good performance, on a stairway to decline solely of its own making?

Figure 7

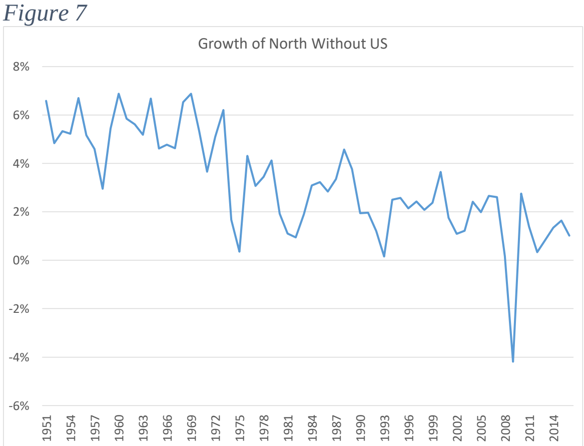
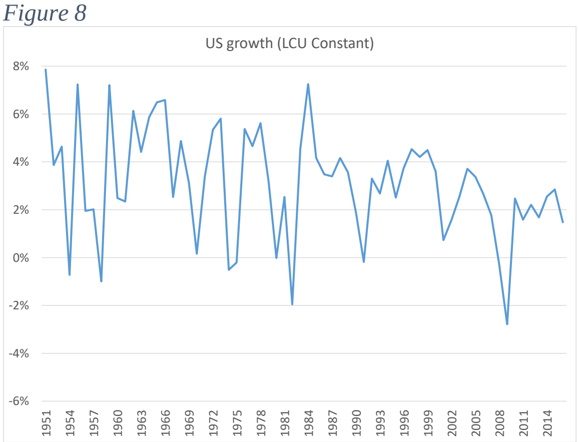


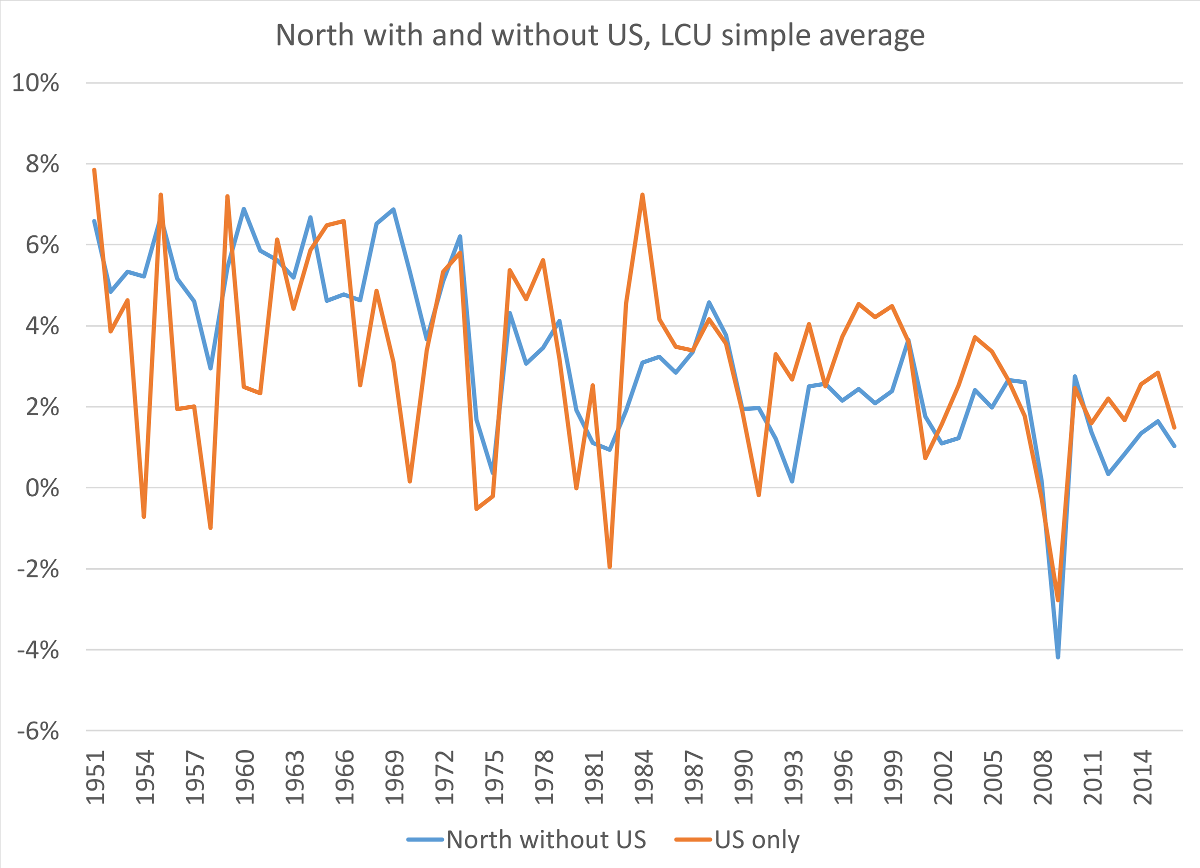
Figure 8



As figures 7 and 8 show, the decline is no more marked in the US than in the rest of the North, but is as inexorably present as throughout. The US decline appears also significantly more volatile, but this is in part at least because the averaging process, for the remaining countries, tends to smooth out sharp fluctuations.

Figure 9 provides both measures on the same axis, for comparison, and illustrates the fundamental conclusion: both the US, and the remainder of the North, manifest a long-term historical decline at very similar rates, and have reached a very similar point at the current stage of this process.

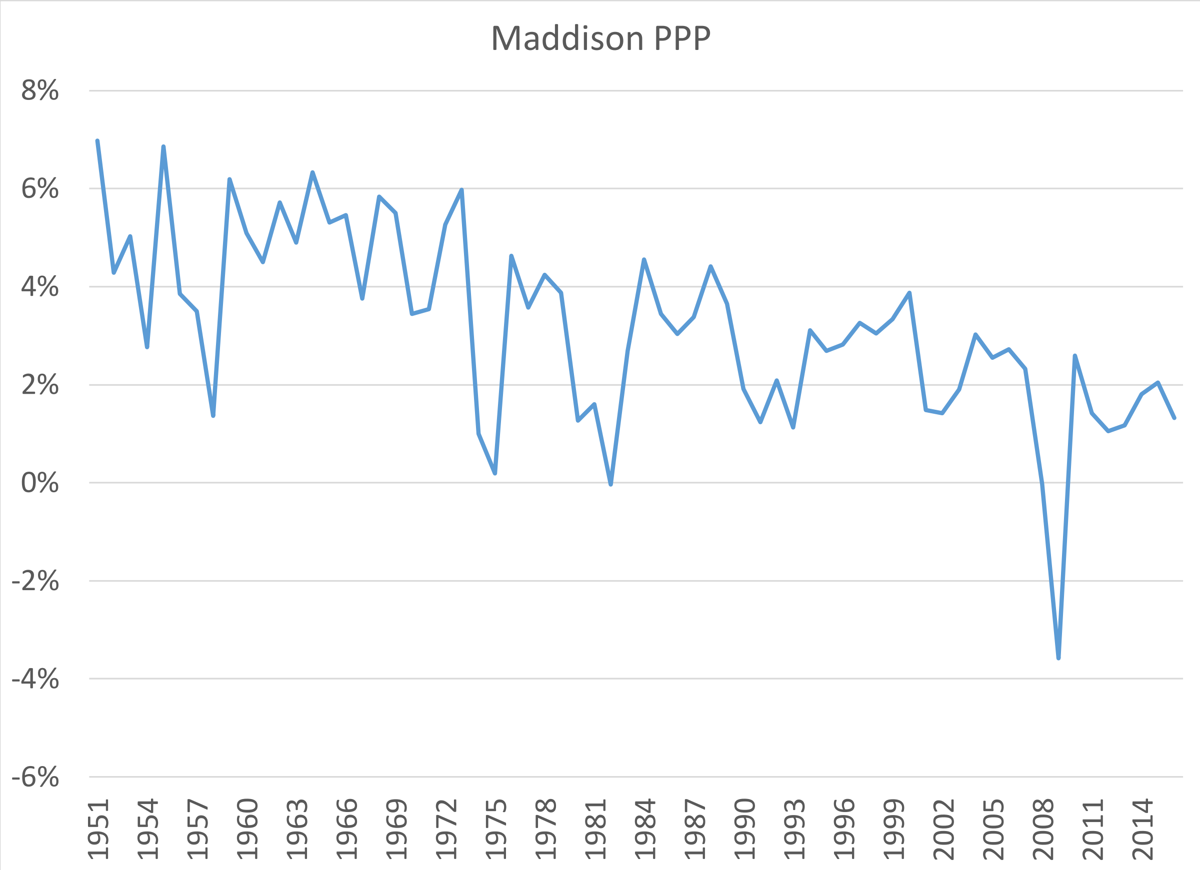
Figure 9



Purchasing-Power Parity and the Maddison statistics

The onset of the 'lost decades', and the unforeseen sharp rise in international inequality which followed the debt crisis of the early 1980s and the dawn of neoliberalism, provoked considerable concern expressed most visibly in the Jubilee 2000 movement, and saw the beginning of social upheavals contributing substantially to the 'Pink Tide' governments of Latin America and the Arab Spring in the Middle East. Among the reactions of international bodies such as the IMF and the World Bank was the adoption of poverty-reduction strategies aimed at the worst hit countries and people, and to the current concern, expressed most cogently in Piketty (2014) and Pickett and Wilkinson (2009)

Figure 10



It also led to something of a revolution in economic statistics, with the adoption of the Millennium Development Goals (UN 2015) and a series of measures designed to capture and track the effects of poverty. Foremost among these was the adoption in 1992, after an initial period of hostility, of ‘Purchasing Power Parity’ measures of GDP. In principle, the purpose of PPP is to adjust for alleged distortions in the measurement of national income, arising from the fact that goods do not cost the same in different countries, , by analogy with ‘real income’ which seeks to adjust for the effect of purely monetary inflation. The widespread, indeed wholesale adoption of PPP by international agencies is, in no small measure, connected with the fact that they increase the reported income of the poor countries and reduce that of the rich countries, leading to significant improvements in the battle against poverty due principally to price differentials, and with no or little relation to productive performance. (Freeman 2009).

Scholars of PPP have reacted to this problem by distinguishing between PPP measures suited to the study of consumption and those suited to the study of production. The Maddison group now makes the explicit claim to provide a measure of GDP appropriate for growth comparisons. In any case, the above-mentioned difficulties associated with PPP are of less significance for the measurement of growth.

Nevertheless, PPP measures of growth do differ from those based on unadjusted real income or ‘constant local currency’. It is important, for a general study, to compare our results therefore with PPP-based figures. A further useful feature of PPP measures is that, being expressed in a single universal currency (the 'International PPP Dollar'), it is legitimate simply to add them up, prior to estimating growth.

The results are unmistakable and bring us to our conclusion: the combined evidence of the long-run data now available to the public shows and unambiguous, and decisive, decline, lasting over the past 50-65 years, affecting all countries of the industrialised world, and showing no sign of ending.

Bibliography

Duménil, Gérard and Dominique Lévy. 2004. *Capital Resurgent: Roots of the neoliberal revolution*. Cambridge, MA: Harvard University Press.

Freeman, A. 2009.'The Poverty of Statistics'. *Third World Quarterly* Vol 30(8) December 2009. pp1427-1448 ideas.repec.org/p/pra/mprapa/16827.html

IMF. 2018. Statistical Appendix to the October 2018 *World Economic Outlook, https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018*

Jordà, O., Moritz Schularick, and Alan M Taylor. 2017. Macrofinancial History and the New Business Cycle Facts. In *NBER Macroeconomics Annual 2016*, volume 31, edited by Martin Eichenbaum and Jonathan A. Parker. Chicago: University of Chicago Press. https://www.nber.org/chapters/c13776

Mandel, E.1978. *The Second Slump.* London: Verso

Pickett, K and Richard Wilkinson. 2009. *The Spirit Level: Why Equality is Better for Everyone.* Equality Trust.

Piketty, T. 2014. *Capital in the Twenty-First Century*, trans. A. Goldhammer. Cambridge, Mass.: Belknap Press.

UN. 2015. Millennium Development Goals website. http://www.un.org/millenniumgoals/

Sources

The data used in this report will shortly be placed on the website of the Geopolitical Economy Research Group (GERG) at www.geopoliticaleconomy.ca. These data form part of a wider research project, the GERG data project, which seeks to bring together, in one place, data on macroeconomic history from all major sources, to form a basis for public information and debate about the actual trends in the world, regional, and national economies. The database currently combines sources on a wide variety of macroeconomic topics from the IMF, World Bank, Bureau of Economic Analysis (BEA), National Bureau of Economic Research (NBER), the world KLEMS initiative, and other sources such as individual country statistical bureaux and series compiled by specialist researchers. The intention is that this facility should become a general open data resource for a community of data providers and users.

The sources used in this report are:

The World Economic Outlook Database: https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx

Maddison Historical Statistics: https://www.rug.nl/ggdc/historicaldevelopment/maddison/

The Jordà-Schularick-Taylor Macrohistory Database, http://www.macrohistory.net/data/

Definitions and classifications

The data project includes the construction of a flexible and pluralist system for classifying geopolitical regions, indicators, and methods of measurement. The system is embedded in the database project located at https://github.com/axfreeman/GERGLE-MacroEconomic-History-4.0.2, which whilst accessible as an opensource project to researchers with a technical bent, requires user-friendly documentation. This is under way. For now, the most important presuppositions of the present report are the indicators of GDP and its growth, which have been described above, and the definition of the 'industrialised' or 'North' group of countries. As noted in the text, the definition is taken directly from Jordà et al.(2017). Countries included in the definition of the 'North' used in this report are:

Australia
Belgium
Canada
Denmark
Finland
France
Germany
Italy
Japan
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
United Kingdom
United States

Alan Freeman, Caracas, 9 January 2019