

WEEKLY MARKET COMMENT

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Angus Maddison has recently published yet another *tour de force*, and entitled it *Contours of the World Economy: 1-2030 AD*, Oxford University Press, 2007. The chapter on the Roman Empire is strikingly impressive, but I would rather point to the futurology chapter here, whereby Maddison, together with the *US Census Bureau* and the *Groningen Growth and Development Centre (GGDC)*, indulges into grasping the surrounds of the world economy c. 2030, equipped with population, productivity, energy and global warming estimates. In so doing, he delves into his unrivalled mastery of the macroeconomic history of many parts of this earth.

Over the years 1952 to 1978, the world per capita income grew faster than ever before, at 2.6% per annum, which is about 28 times as fast as in 1700-1820, and 3 times as fast as in 1820-1952. In this golden age, all parts of the world economy showed substantial improvement on past performance to the point of belabouring the obvious, i.e. that growth was indeed smooth and proportional, dismaying the unsavoury language of the Harrod-Domar model. The United States –the lead country in terms of productivity and per capita income- grew more slowly than the world average, but posted nonetheless relatively high rates of total factor productivity growth, which can be taken as evidence of rapid advance at the technological frontier. There was a remarkable degree of catch-up in Japan and the advanced capitalist countries, and that substantially reduced the per capita income gap between themselves and the lead country. In China, real income grew faster than ever before, but its growth was less than the world average. Africa and “Other Asia” fell behind in relative income, but also increased their absolute levels at historically unprecedented rates.

In 1978-95, world economic growth was much slower. *The deceleration in the lead country was mainly due to a sharp drop in total factor productivity performance, suggesting strongly that the pace of advance at the technological frontier had weakened. There was a sharp slowdown in Japan and the other advanced capitalist countries, because of the weaker growth at the technological frontier and the fact that they were operating much nearer to US levels of performance and hence had eroded a good part of their potential for rapid catch-up.* The Asian economies were the most dynamic component of the world economy in 1978-95. Growth of per capita income accelerated sharply in China and the 7 other dynamic Asian economies. There was substantial improvement in India, but some slowdown in the 31 other Asian economies.

It is likely that progress at the frontier of technology will continue to be slow, in line with the evidence of slow total factor productivity growth in the lead country (the United States) which has been evident for the past quarter of a century. It is assumed that the other advanced capitalist countries and Japan will have little potential for significant narrowing of the real income/productivity gap between themselves and the United States. This is now fairly small, and economic policy in both Japan and the advanced capitalist countries of Europe has been and is likely to continue to be less than optimal for realising their full potential. It does not seem unreasonable to hope for some reversal of the previous declines in per capita income in the countries of the former Soviet Union, the Middle East and Africa, and there are already signs of revival and some success in policy reorientation in Eastern Europe and Latin America, where somewhat better growth is forecast. Deceleration in the dynamic Asia group seems likely as some of the countries have already arrived at levels of income where the pace of catch-up can be expected to wane, and several of them have very serious problems of adjustment to the system shocks of 1997 (flight of foreign capital, collapse of stock markets and exchange rates, escalating inflation and IMF stabilisation programmes) which are likely to have repercussions for several years.

In other Asia, where incomes are much lower, there is potential for growth acceleration of the type already evident in India. China seems likely to be able to grow faster than most other Asian countries *a)* because its level of real income/productivity is quite low; *b)* it has sustained a high growth trajectory for two decades and has proved capable of maintaining high rates of investment in physical and human capital; and *c)* it has been less exposed to the shocks which other dynamic Asian countries sustained in 1997. However, future growth is unlikely to be as fast as in 1978-95 because it faces major problems in reforming state industry, fiscal, and monetary policy; has eroded some of the once-for-all gains from previous liberalisation; and faces some slowdown in its Asian markets. The overall world projection suggests slower demographic growth than in 1978-95, but a significant improvement in the overall growth of per capita income. World GDP is projected to grow at about 3% a year. This would be better than the 2.7% of 1978-95, but substantially slower than in 1952-78.

The exhibit below displays the changing patterns of world economic outlook, and portrays the change as a post-1973 phenomenon, if not dating from olden times.

Shares of world GDP (as %)

	1820	1870	1950	1973	2003	2030
Western Europe	23.0	33.1	26.2	25.6	19.2	13.0
Western Offshoots*	1.9	10.0	30.7	25.3	23.7	19.8
Asia**	59.4	38.3	18.6	24.1	40.5	53.3
Eastern Europe	3.6	4.5	3.5	3.4	1.9	1.3
Former USSR	5.4	7.5	9.6	9.4	3.8	3.4
Latin America	2.1	2.5	7.8	8.7	7.7	6.3
Africa	4.5	4.1	3.8	3.4	3.2	3.0

Maddison, 2007, Table 7.6, p. 340

- Includes USA
- **includes Japan