THE WORLD ECONOMY: GROWTH OR STAGNATION?

Course Description

Introduction. The objective of Economics 1490 is to assess the prospects for sustainable growth of the world economy. Despite the slow recovery of Europe, the U.S., and Japan from the Great Recession, world economic growth has continued at an accelerated pace since the mid-1990s. This is due to the very rapid growth of emerging economies in Asia, especially China and India. China overtook the U.S. as the world’s largest economy in 2014, while India surpassed Japan in 2012, becoming the world’s third largest economy. Will slower growth of the advanced economies lead to worldwide stagnation or will the accelerated growth of the world economy continue?

Comparing Economies. The initial challenge is to measure the growth of the world economy. In comparing economies we utilize the world’s largest and most elaborate project in economic statistics, the World Bank’s *International Comparison Project*. This compares levels of the GDP for 199 countries for the benchmark year 2011 and will soon be updated to 2017. The International Monetary Fund publishes growth projections for the world economy and 192 individual countries in *The World Economic Outlook* (WEO) for April and September-October of each year. The WEO also provides national accounting data for the 192 countries, extending back to 1980.

In analyzing growth rates for the world economy and the individual countries, we consider data on the sources of economic growth – labor and capital inputs, and productivity—prepared annually by The Conference Board for 111 countries. These three sources of growth provide links to demography, finance, and technology -- forces that drive economic growth. We analyze the integration of economies through international trade and investment. The elaboration of global value chains for production has led to increases in the globalization of economic activity and intense international competition.

U.S. Crisis and Recovery. Despite the impressive growth of the world economy over the past two decades, the Great Recession that began in the United States in 2007 has dampened the growth of advanced economies in all three major regions – North America, Europe, and Asia. The debate over the U.S. economic recovery has engaged leading monetary policy-makers, such as Ben Bernanke and Janet Yellen, chairs of the Federal Reserve Board. The impact of President Barack Obama’s fiscal stimulus program, the American Recovery and Reinvestment Act of 2009, has generated a heated controversy over the effectiveness of fiscal policy.

The debate over the U.S. crisis and recovery has focused on the regulatory failures that preceded the Lehman Brothers bankruptcy in 2008 and the resulting financial collapse. Peter Wallison has emphasized deficiencies in the regulation of housing finance. A new regulatory framework, intended to avoid a recurrence of the crisis, has been put in place. However, the slow pace of the economic recovery has
revealed strong differences of opinion among leading economists such as Ken Rogoff and Larry Summers about the prospects for future U.S. economic growth.

**European Slowdown.** The Great Recession spread to Europe in 2008. This was preceded by a marked slowdown in European growth, ending the economic convergence of Europe and the U.S. over the postwar period. The search for policy remedies for the European slowdown led to the Lisbon Agenda of 2000 and a more recent document, *Europe 2020*, published by the European Commission. These initiatives have been largely overtaken by the European policy response to the economic and financial crisis and the slow recovery.

For the 19 countries that belong to the Euro System, the European debate has focused on the monetary policy of the European Central Bank. The central banks of countries not included in the Euro, most prominently the Bank of England, have also responded to the crisis. The most surprising development is Brexit, the decision by the British electorate to exit the European Union. We consider the possible consequences of Brexit for Great Britain and the European Union, drawing on the work of the Centre for Economic Performance at the London School of Economics.

**Asian Economic Miracles.** We conclude the discussion of prospects for world economic growth by turning our attention to the spectacular growth of emerging economies, especially China and India. We also consider economic developments in Japan and Southeast Asia. We review the debate initiated by Paul Krugman, Nobel Prize-winning economist and leading columnist of the *New York Times*. Krugman’s view in 1994, widely shared at the time, was that the Asian “economic miracle” was a myth and would shortly come to an end.

Alwyn Young, a leading development economist, presented evidence that Asian growth rates could be sustained for some time. In 1990 Indian output per capita was slightly less than that of China, but China has grown more than twice as fast as India over the following decades. Economics around the world were confronted by a collapse of world trade in 2008-2009 and this was followed by slower growth of trade. While the growth rates of the major Asian economies have declined, Asia has continued to grow more rapidly than the world economy. Surprisingly, India has recently emerged as the world’s most rapidly growing major economy.

**Sustainability of Economic Growth.** We next consider whether the growth of the world economy is sustainable. The World Bank has addressed this issue in its new report, *The Changing Wealth of Nations 2017*. This provides comprehensive measures of wealth for the world economy and each of 141 countries for twenty years, 1995-2014. Estimates of national wealth are augmented by measures of natural wealth, such as sub-soil mineral resources, and measures of human wealth, defined in terms of lifetime incomes for all members of the population. Human wealth greatly predominates in the World Bank’s comprehensive measures of wealth.

Economic growth for an individual country is *sustainable* if the country’s comprehensive wealth increases more rapidly than the population. Similarly, world economic growth is sustainable if comprehensive wealth for the world grows more rapidly than world population. Will the sustainable growth of the world economy continue or will the slow recovery become a “new normal” of prolonged stagnation? To
address this question, we consider the leading drivers of economic growth for the three major regions of the world economy.

**World Economic Outlook.** Economics 1490 concludes with the growth outlook for the world economy. Demographers like Ronald Lee have been surprisingly successful in anticipating future population trends for individual countries and the world as a whole. However, population projections must be augmented by the accumulation of human and non-human capital in order to make growth projections for the world economy. We assess the sustainability of world economic growth by considering trends in demography, finance, and technology, drawing on information presented throughout the course.

We also consider projections of the extreme poverty population with per capita consumption for individuals less than $1.90 per day. Extreme poverty declined dramatically under the Millennium Development Goals adopted in 2000 by the United Nations, the World Bank, the International Monetary Fund, and other international organizations. Led by the United Nations, the international organizations adopted a new set of Sustainable Development Goals in 2015, including the elimination of extreme poverty by 2030.

**Reading List.** The readings for the course correspond to the topics we have summarized in this Course Description. The assigned textbook for the course is *The World Economy: Growth or Stagnation*, edited by Jorgenson, Kyoji Fukao, and Marcel Timmer, and published in a paperback edition by the Cambridge University Press. This reports on recent trends in growth and productivity for major countries of the world and includes readings on closely related topics, such as investment in human and non-human capital and the rise of global value chains.

The Reading List includes journal articles and book chapters by academic economists. We also include reports by international organizations, such as the IMF and the World Bank, as well as government agencies, such as the U.S. Congressional Budget Office, the European Commission, the Cabinet Office of the Government of Japan, the Development Research Center of China, and the Ministry of Finance of India. Reports of organizations like the IMF and the World Bank are posted on the internet and can be downloaded as required. Other required readings can be downloaded from the course website.

**Writing Requirement.** Short writing assignments (~ five pages) will be given at the end of each of the five main sections of the course. These assignments satisfy the Department of Economics writing requirement for economic concentrators. Students should prepare for the assignments by completing the required readings, participating in class discussions, and attending the review sessions held by Gabriel Unger, the Teaching Fellow in Economics 1490.

We will organize students into study groups, each consisting of four or five students. Based on past experience, we strongly urge students to attend a study group. You will meet some of the most interesting people in the world that way! The writing assignments will be posted on the course website after class on a Tuesday and will be due before class on the following Thursday. The answers will be submitted
electronically and can be completed anywhere in the world. **The writing assignments cannot be re-scheduled.**

**Office hours.** The instructor’s regular office hours are 2:00-4:00 p.m. on Mondays at 122 Littauer. Office hours by Gabriel Unger, Teaching Fellow in Economics 1490, will be announced later.