

The Outlook for Advanced Economies

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AMERICAN
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The World Economy:

Growth or Stagnation?

Edited by Dale W. Jorgenson,
Kyoji Fukao, and Marcel P. Timmer



Major Trends in the World Economy

The Growth of the World Economy Has Accelerated Since 1995 and Become Much More Turbulent.

The Balance of the World Economy Is Shifting from the Advanced Economies of the G7 to the Emerging Economies of Asia, Especially China and India.

The Transformation of the World Economy has Led to a New World Order, Led by China, the U.S., India, and Japan.

The Sources of World Growth

Sources of Growth in Capital Input

Information Technology and Non-Information Technology

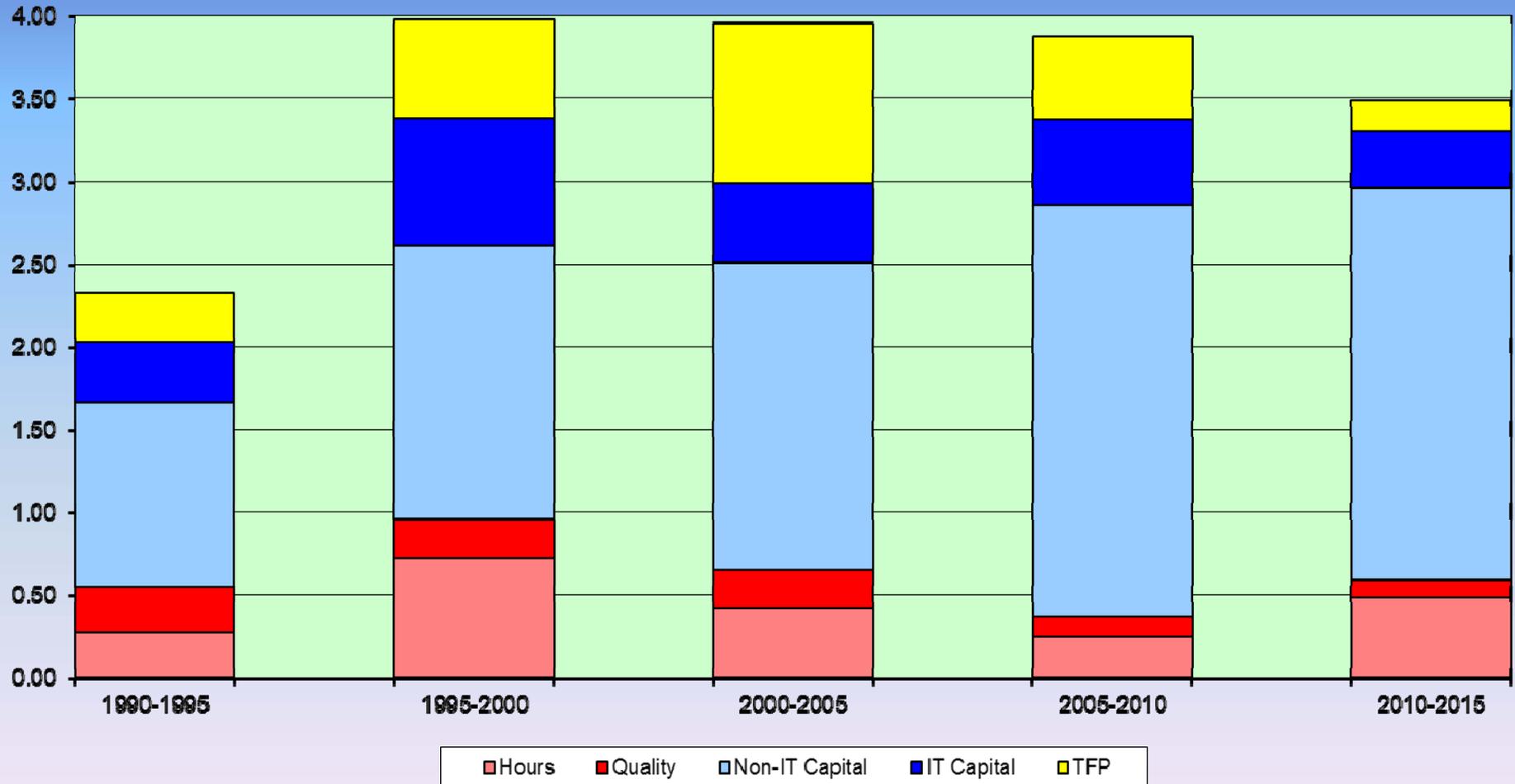
Sources of Growth in Labor Input

Hours Worked and Labor Quality

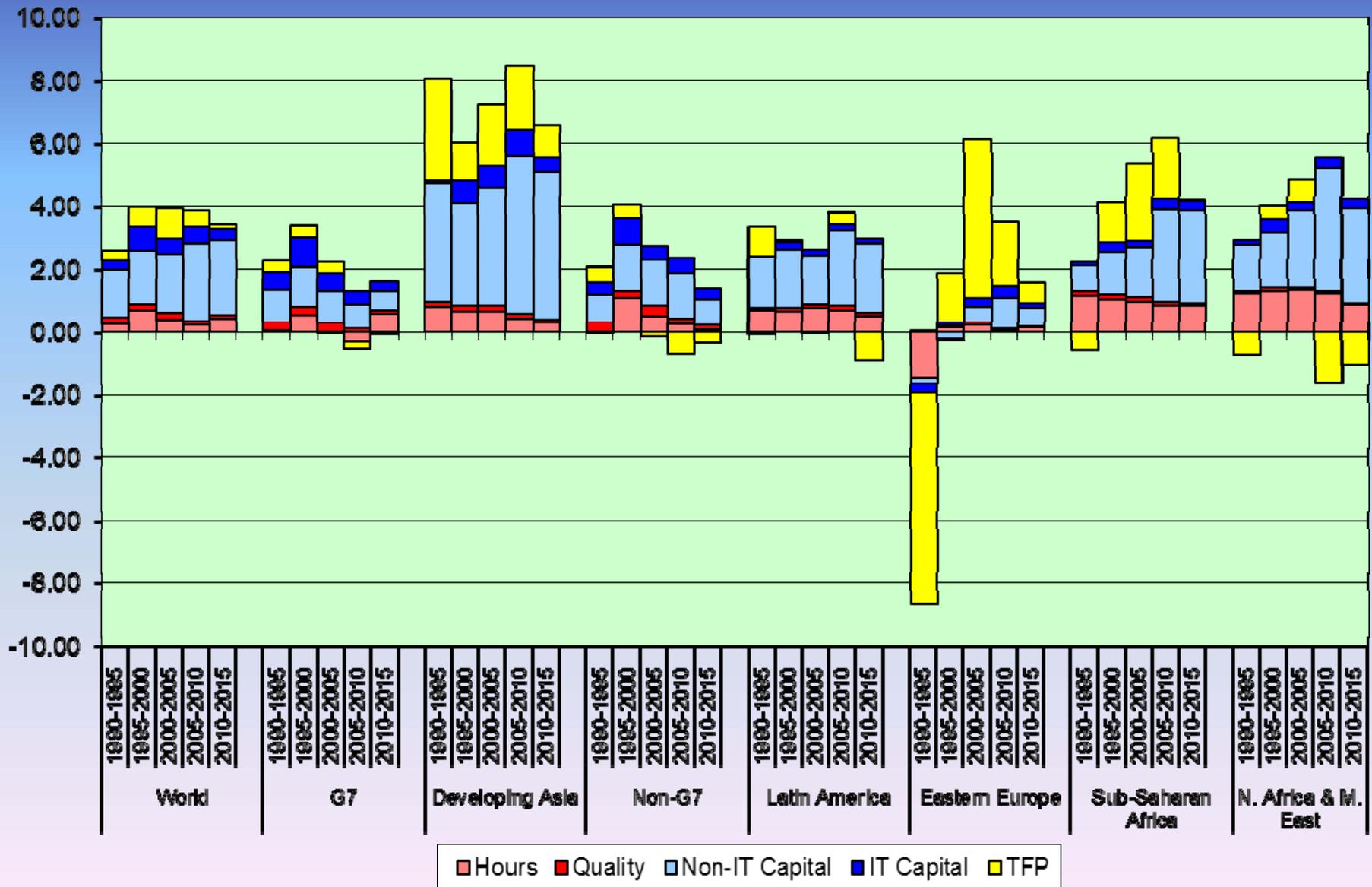
Total Factor Productivity

Sources of World Economic Growth

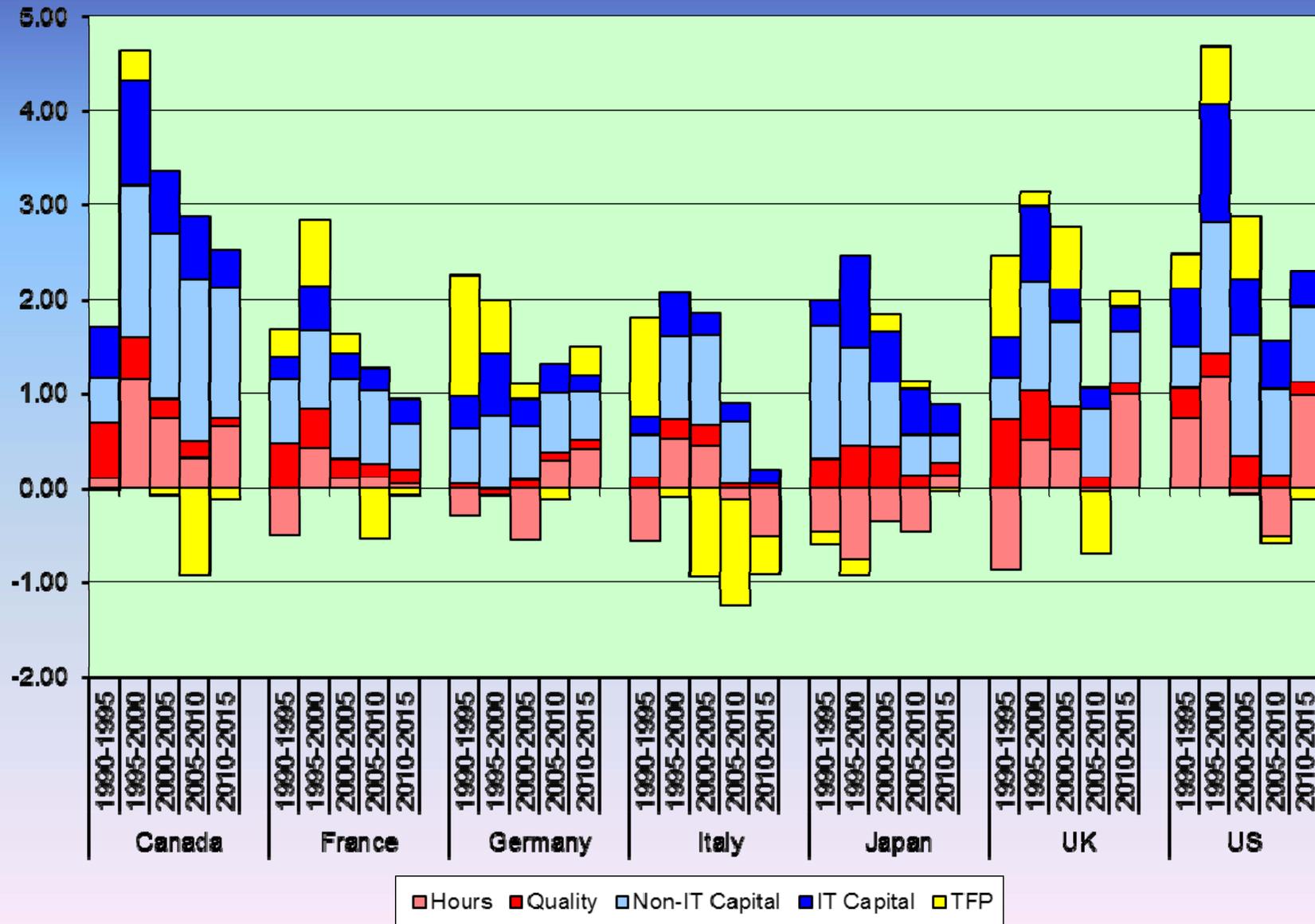
Average annual growth rates, weighted by the income share.



Sources of World Economic Growth



Sources of G7 Economic Growth



Projecting the Growth of the World Economy

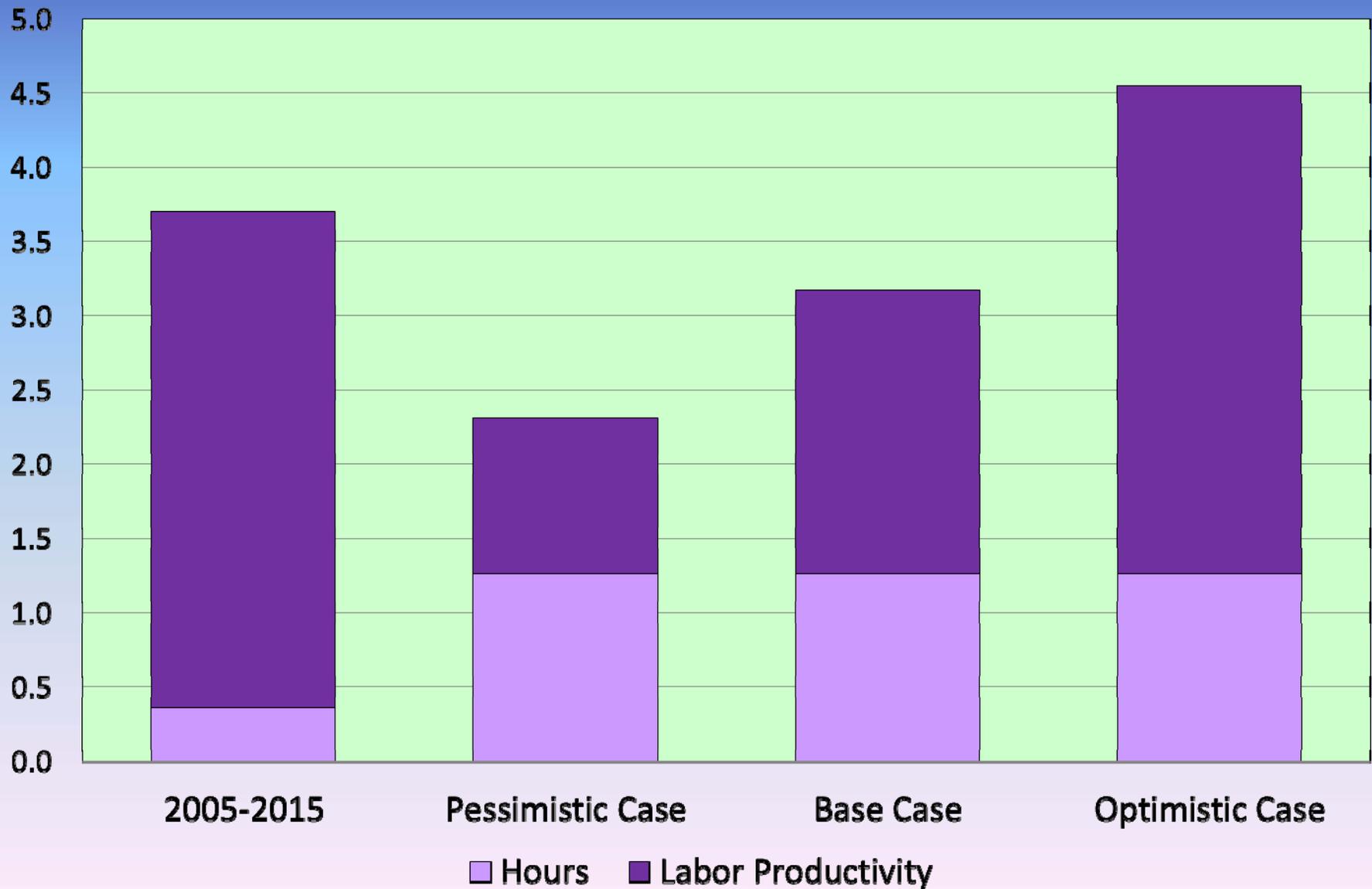
Future Demography: Population Projections for the World Economy Are Available from the United Nations. Labor Input Growth Includes the Growth of the Labor Force and Growth of Labor Quality Due to Changes in Composition by Age, Gender, and Educational Attainment.

Future Productivity: Productivity Projections for the World Economy Can Be Derived from Past Trends in the Development of Information Technology and Non-Information Technology.

Future Output and Capital Input: We Derive Output and Capital Input Projections from Future Trends in Demography and Productivity. Future Productivity Growth Is the Main Source of the Substantial Uncertainty in These Projections.

Range of World Output Projections

Annual percentage growth rates



Outlook for the World Economy

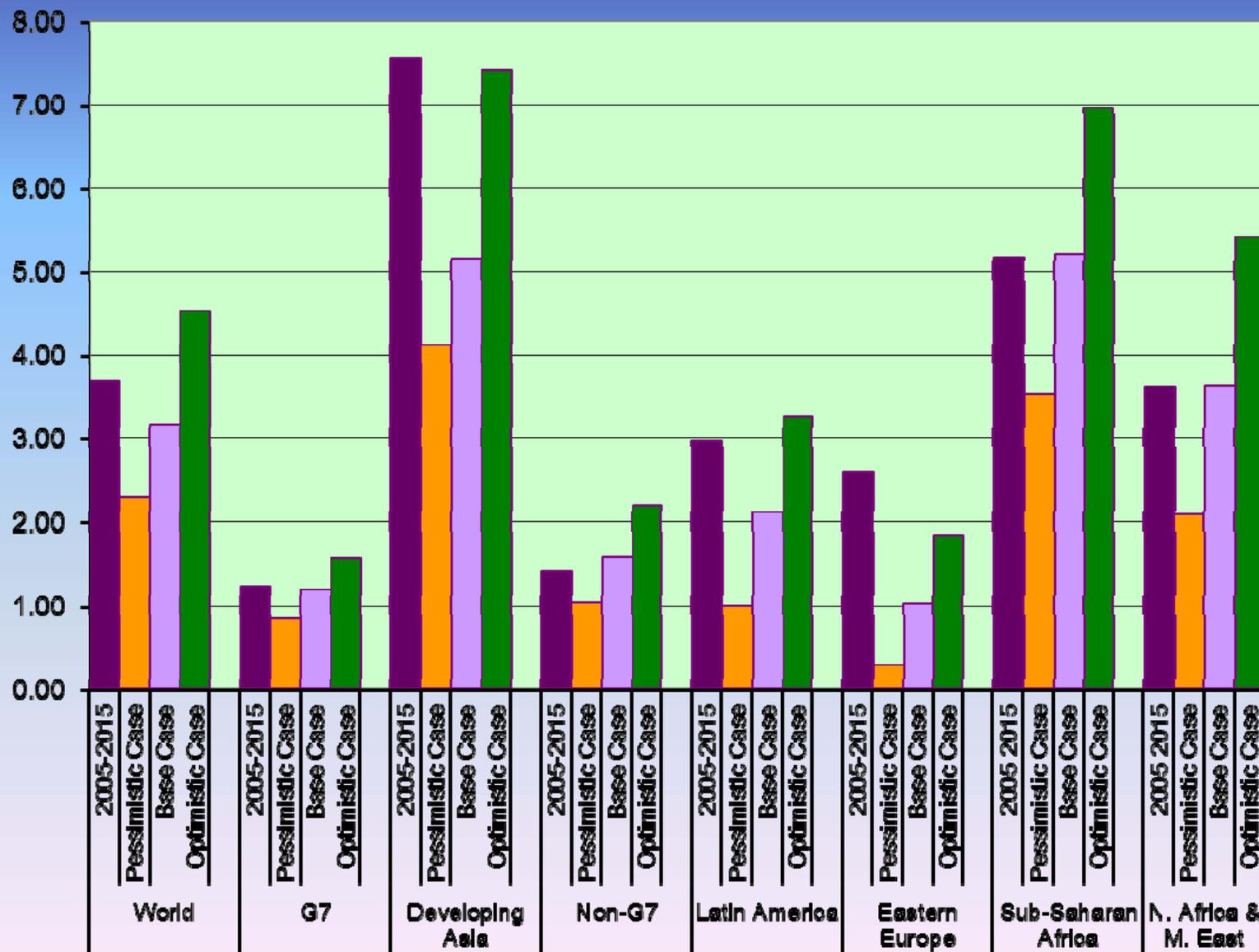
The Growth of the World Economy Has Accelerated since 1990 and This Acceleration Will Continue for 2015-2025.

Average Labor Productivity Growth for the World Economy in 2015-2025 Will Slow Relative to 2005-2015.

Growth of Hours World for the World Economy in 2015-2025 Will Accelerate Relative to 2005-2015.

Future World Economic Growth Will Be Subject to Substantial Uncertainty.

Range of World Output Projections



Outlook for Major Regions of the World Economy

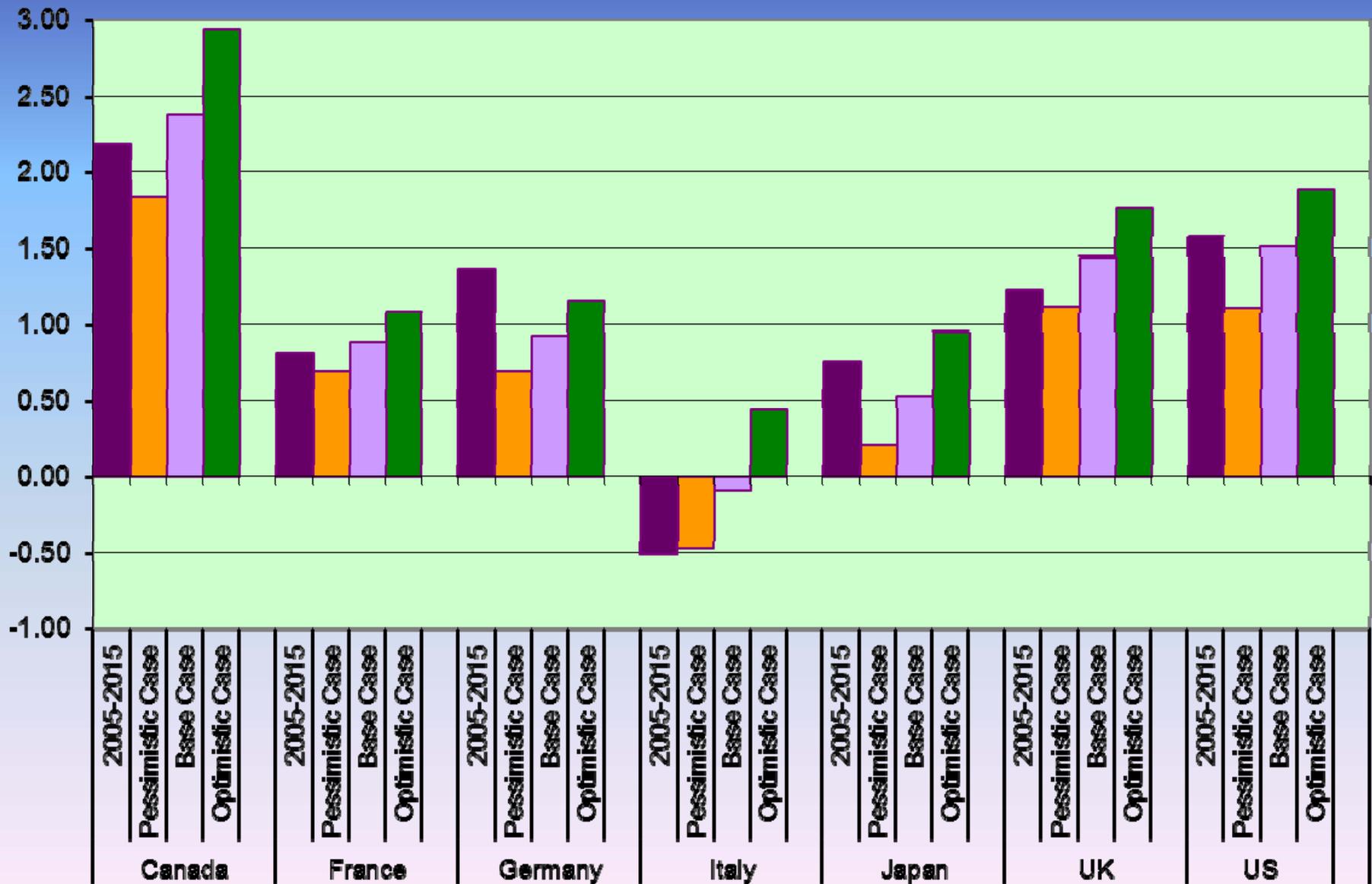
Future Growth of the G7: The Growth of the G7 Economies Will Slow Modestly to 1.22 Percent Per Year from Growth of 1.26 Percent During the Past Decade 2005-2015. This Slowdown Reflects the Failure of the G7 Economies to Recover from the Great Recession that Began in the United States from 2007-2009.

The Upside Potential for Overcoming the Stagnation of the G7 Economies Would Require a Revival in the Sources of Growth of Average Labor Productivity, Including Capital Deepening and Total Factor Productivity Growth. The Downside Potential for Continued Stagnation Would Involve a Further Decline in These Sources of Growth of Average Labor Productivity.

Future Growth of Developing Asia: The Growth of Developing Asia Will Slow to 5.18 Percent Per Year from Growth of 7.58 Percent During the Past Decade 2005-2015. The Economies of Developing Asia Will Continue to Growth More Rapidly Than the World Economy So That the Share of These Economies in World GDP Will Rise from 35.20 Percent in 2015 to 42.73 Percent in 2025.

The Upside Potential for Developing Asia Is to Continue the Relatively Rapid Growth of the Past Decade. This Would Require a Continued High Rates of Capital Deepening and Rapid Total Factor Productivity Growth. The Downside Potential Is for Weaker Capital Deepening and Lower Growth of Total Factor Productivity.

Range of G7 Output Projections



Outlook for the G7 Economies

Future U.S. Economic Growth: Our Projection Is for a Continuation of the Slow Growth of 1.6 Percent Annually for the Past Decade, 2005-2015, to Potential Growth at 1.5 Percent Annually for the Decade, 2015-2025.

Downside Risk for the U.S. Economy Is the Failure of Attempts to Develop a Sustainable Fiscal Policy. Upside Potential for the U.S. Economy Is a Substantial Stimulus to Growth from a Long Overdue Major Tax Reform.

Future Japanese Growth: Our Projection Is for a More Substantial Slowdown from Growth Around 0.75 Percent Annually for the Past Decade to Potential Growth of 0.52 Percent for the Next Decade. Adverse Demographic Trends Pose Major Obstacles.

The Major Downside Risk for the Japanese Economy is Continuation of the Stagnant Productivity Growth of the Past Two Decades. A New Growth Strategy Will Be Required to Overcome the Two Decades of Economic Stagnation.

Summary of the Transformation of the World Economy

Despite the Economic Turbulence of the Past Two Decades, the World Economy Is Entering a Period of Sustainable Growth at a Rate of almost 3.2 Percent Annually, Only Slightly below the Growth Rate of 3.3 Percent for the Past Quarter Century.

Relative Importance of the Major Emerging Economies, China and India, Will Continue to Increase, Even with Much Slower Growth in China and a Modest Slowdown in India. Growth Potential Will Decrease Modestly in Both Japan and the U.S.

Upside Potential Growth of the World Economy Is Considerable, But Would Require Ambitious Domestic Reforms in the Major Emerging Economies that Appear Unlikely. Downside Risks Are for Continued Stagnation of Productivity Growth around the World.

Conclusion: The Base Case Projection of World Economy Is for Moderate but Sustained Growth and a Continuing Shift from the Advanced Economies of the G7 to the Major Emerging Economies. This Has Established the New World Order of the 21st Century.