Emerging mediocrity

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The world is distancing itself from the recession of 2009 at a slower pace than before the financial crisis of nearly a decade ago. After the growth of 2010 and 2011, driven by massive fiscal stimulus and liquidity in developed economies and China, the global GDP growth of the last few years has been 3.3%, compared to the average of 3.5% between1980 and 2008, or 4.2% in the decade between 1998 and 2007. The developed half of the world remains below 2%, nearly one point less than its historic average. As for the emerging half, although it is faster than before, it is slowing down to nearly 4%.

It seems reasonable that the mid-term growth prospects are increasingly lower, although only because the data registered insist on not disappointing forecast. Are we on the verge of a prolonged stagnation, as we converge toward the moderate growth of the developed and emerging economies? The short answer is that we don't know, which doesn't exactly make us pessimists in the context of the various theories that try to explain mediocre emerging growth.

GDP is based on two available production factors and the efficiency with which they are combined. The most optimistic among us say the current situation will be a transitory phase. History shows that it takes longer to crawl out of a crisis caused by excessive debt, as was the case with 2007-08, because demand for credit is constrained by the need to pay back debts and because the supply of credit has to adapt to a more demanding scenario in terms of risk perception and the regulatory environment. Once debt weighs less than income, dynamic growth returns, supported by a fresh credit cycle that drives investments and consumption. At the other extreme of explanations, we have the theory that it will be impossible to escape the impact of a stagnant and aging population, which comes on top of a secular halt in productivity. The digital revolution has not turned this around, because none of its improvements is comparable with what was brought about by running water, electricity or the combustion motor.

Despite everything, there are reasons to be optimistic. Apart from the many places in the world in which running water and electricity are still considered out of the ordinary, or that we cannot discard disruptive technological developments a priori that have an impact on living standards, there is room to improve the efficiency with which production, capital and employment is used. For example, education can be a factor that offsets a weak labor force, especially in emerging economies. The percentage of its population with secondary education has doubled to nearly 60% of the total between the 90s and 2015. There is a direct relationship between education and productivity and, therefore, growth capacity. Policies aimed at improving education are crucial to preventing the emerging mediocrity from becoming permanent.