

Global Economic Risks from Longer Term Trends

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Global Economic Prospects

October 1st, 2015

An Optimistic View from Outer Space

- World economy growing at 3–3½ percent
- Distribution of growth OK across countries
- Distribution of growth not so OK within countries
- On balance, improved cross-country distribution is prevailing to raise incomes broadly
- Worldwide distribution of individual incomes has improved since 2000
- We project further improvement through 2035
("The Future of Worldwide Income Distribution," PIIE WP15-7, P. Mauro and T. Hellebrandt)

Risks from Longer-Term Trends

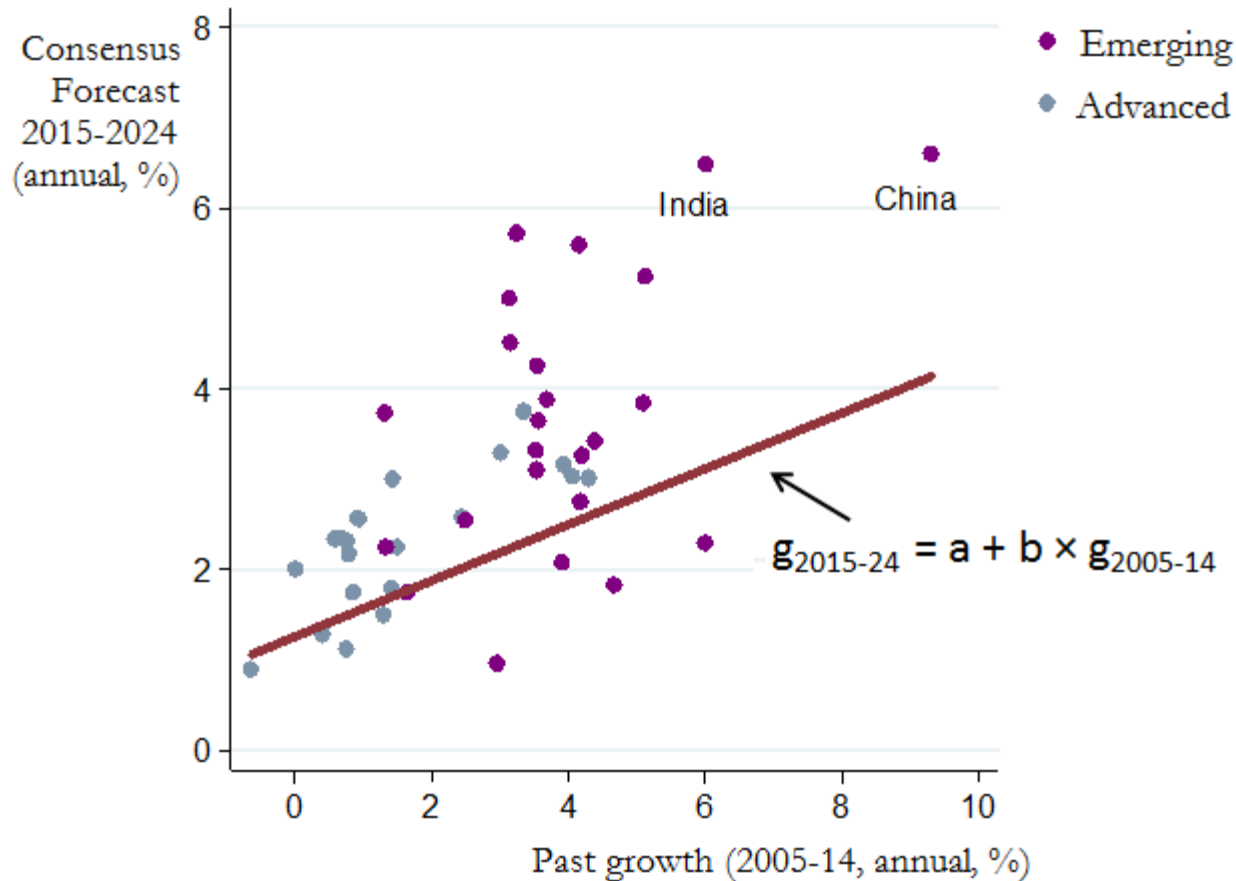
- *Risks from longer-term trends are often underemphasized in standard forecasting exercises.*
- *These risks can manifest themselves abruptly with near-term consequences.*

Key Globally Common Risks:

- Sustained decline in trend economic growth—especially in EMs (geopolitics, domestic political disruption)
- Large differences in demographic trends across continents will give rise to pressures, e.g., migration
- Fiscal crises when governments fail to adapt to declines in long-run output growth

EMs: A Year Ago

Consensus Forecasts versus past per capita growth,
10-year horizon (percent)



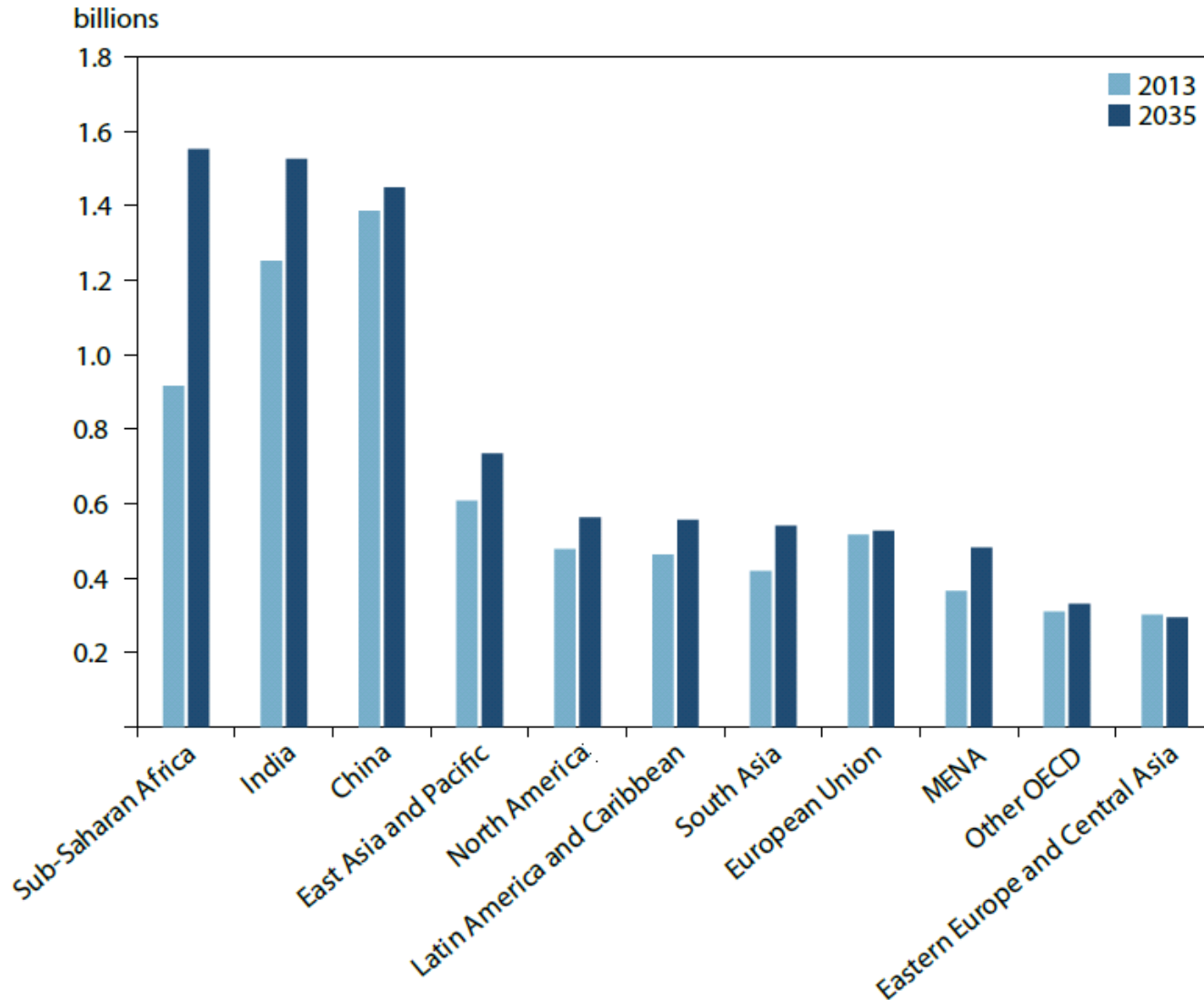
Note: a , b estimated with long-run panel regressions

Source: G. Ho and P. Mauro, *Rapid Growth in Emerging Markets and Developing Economies: Now and Forever?* PIIE Policy Brief 14-26.

Emerging Markets: Bottom Line

- In the long run, EMs will be engines of global growth on average
- For specific countries, only if domestic politics and geopolitics permit
- Governments and investors should prepare for consumption growth, shifts in composition
- Downside scenarios should be used widely
- Demographic shifts → risks, opportunities

Distribution of Global Population 2013 and 2035

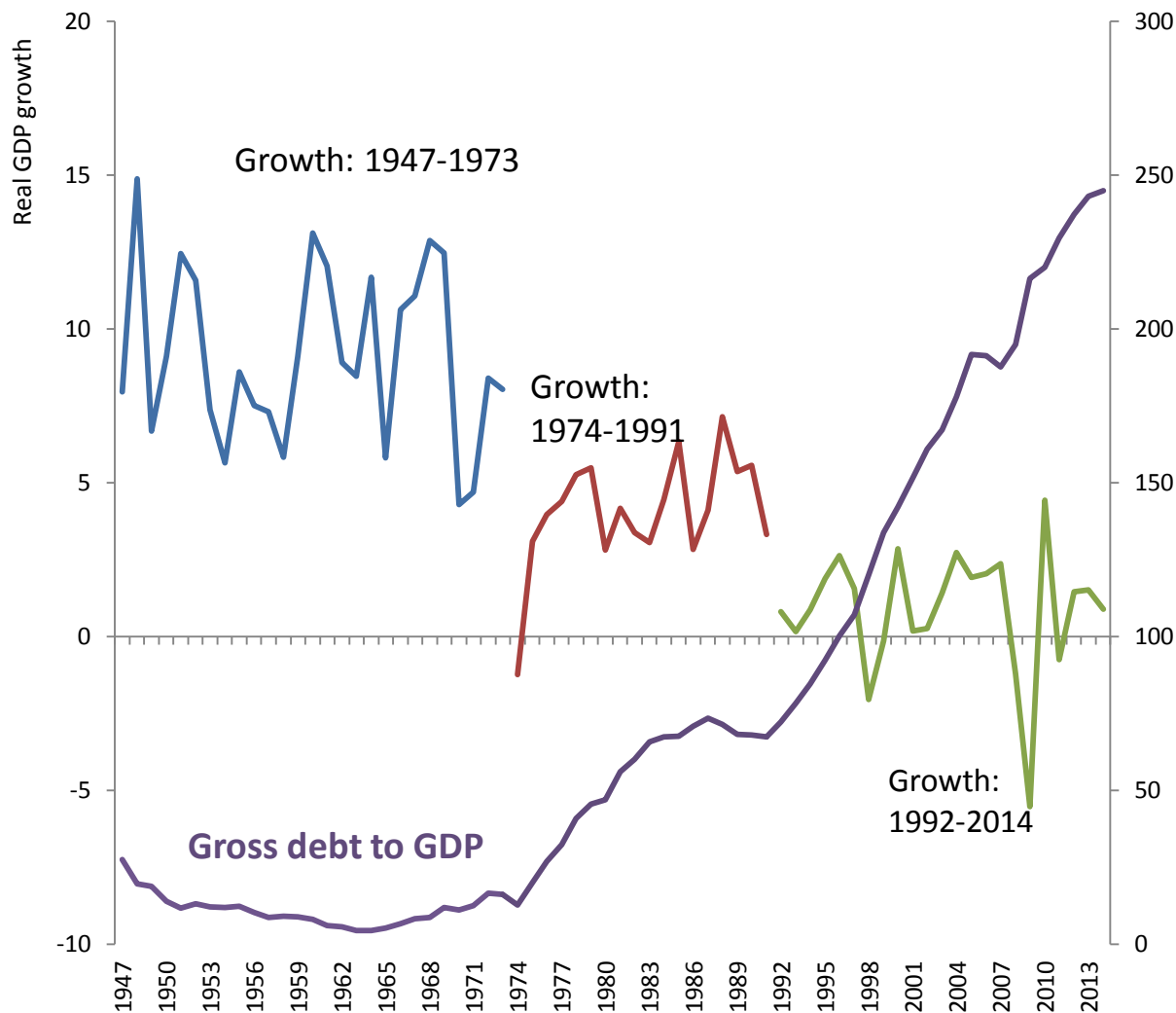


Projections source:
United Nations

What if Long-Run Growth Has Declined?

- Our dataset: 200 years, 55 countries, their public debts, deficits, interest payments, and growth
- Policymakers often misread long-run economic growth declines as though they were temporary slowdowns
- As a result, they fail to reduce structural fiscal deficits, and public debt/GDP ratios balloon
- Recent public debt crises or near-crisis resulting from trend growth declines: Latin American and other middle income debt crises of the 1980s, highly indebted poor country crises of the 1990s, rise in advanced country debts in the 1990s
- Japan as an illustration

GDP growth and Debt/GDP in Japan



Source: P. Mauro, R. Romeu, A. Binder, and A. Zaman, 2015, "A Modern History of Fiscal Prudence and Profligacy," *Journal of Monetary Economics*, 76, 55-70.