

# The Facts of Economic Growth

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Introduction to Economic Growth

We measure economic activity using real Gross Domestic Product (GDP): the value of all goods and services for final use

- ▶ “Real”: we ignore raw inflation in all prices over time and all currency difference across countries
- ▶ “Goods and services”: things like lectures, doctor visits, accounting, and legal work all contribute the same as producing cars, food, or iPhones
- ▶ “Final use”: we count goods and services that are consumed or used immediately, not ones used to produce other goods and services in the same time period
- ▶ “Value”: we infer the quantity of each good or service, and weight them according to their relative price

# Basic data

Facts

	GDP per capita, 2019	GDP per worker, 2019	Labor force participation rate, 2019	Average annual growth rate, 1960-2019	Years to double
Relatively rich countries:					
United States	\$62,589	\$130,107	0.48	2.0	35
France	43,755	103,284	0.42	2.3	30
Japan	39,704	71,980	0.55	3.4	21
Middle income countries:					
Turkey	26,948	80,044	0.34	2.8	25
Chile	23,253	54,405	0.43	2.5	28
Mexico	18,737	43,465	0.43	1.7	40
Relatively poor countries:					
China	14,129	25,360	0.56	4.5	16
India	6,711	18,429	0.36	3.0	24
Malawi	1,161	2,721	0.43	0.4	160
Growth miracles:					
Singapore	82,336	127,117	0.65	5.8	12
Taiwan	46,761	95,946	0.49	4.9	15
South Korea	42,219	80,702	0.52	6.0	12
Growth disasters:					
Madagascar	1,539	2,977	0.52	-0.1	-918
Niger	1,211	3,182	0.38	-0.9	-80
Venezuela	251	612	0.41	-5.8	-12

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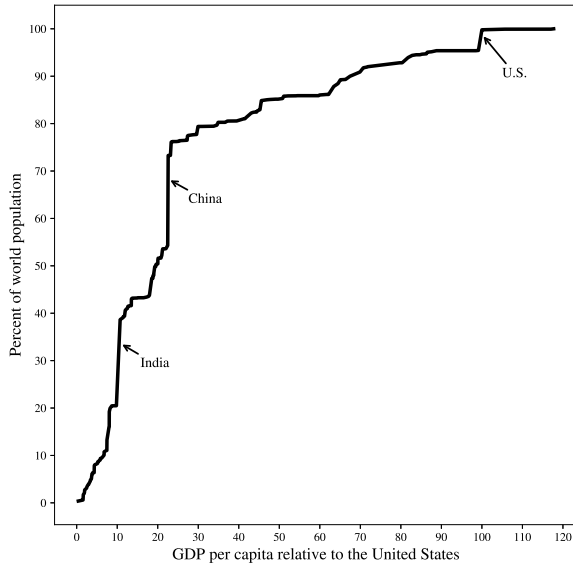
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## Variation in GDP per capita

There is enormous variation in GDP per capita across economies. The poorest countries have GDP per capita that are less than 5 percent of GDP per capita in the richest countries.

# Cumulative Distribution of World Population by GDP per capita, 2019



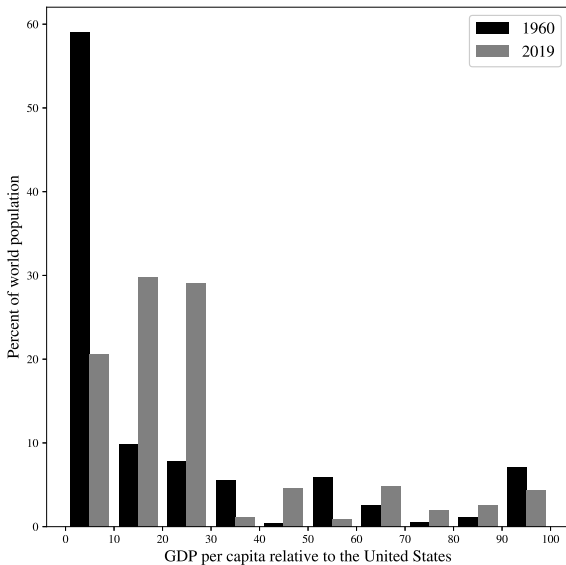
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# World Population by GDP per capita, 1960 and 2019



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## Variation in growth rates

Rates of growth in GDP per capita and GDP per worker vary substantially across countries.

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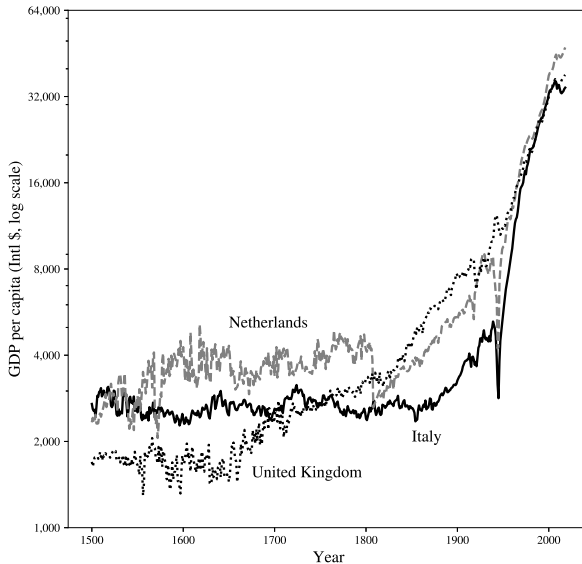
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## Variation in growth rates

Growth rates are not necessarily constant. For much of world history, growth rates were close to zero but increased sharply in the 19th and 20th centuries. For individual countries growth rates also change over time.



# GDP per capita, 1500-2019, Selected Countries



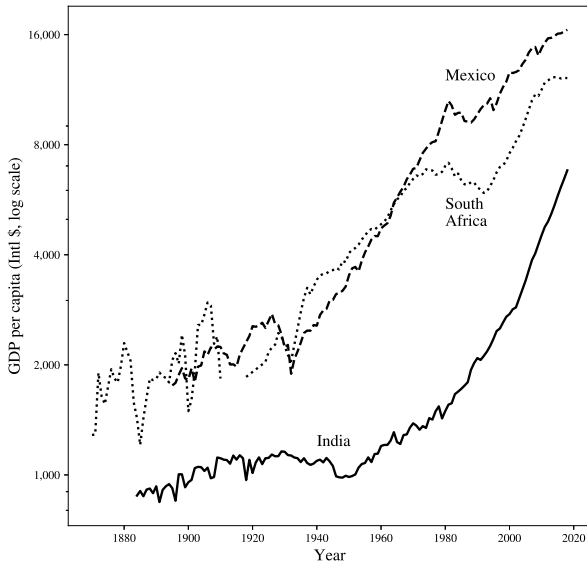
# GDP per capita, 1500-2019, Selected Countries

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## Relative position

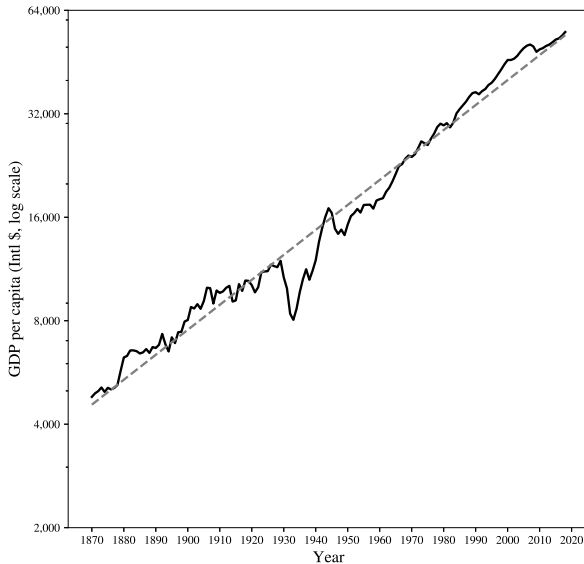
A country's relative position in the world distribution of GDP per capita is not immutable. Countries can move from being “poor” to “rich”, and vice versa.

## Long run growth characteristics

In the United States over the last century,

1. The average growth rate of GDP per capita has been positive and relatively constant.
2. The real rate of return of capital shows no trend.
3. The share of GDP earned by labor compensation (e.g. wages) shows no trend.
4. The share of GDP spent on capital formation shows no trend.

# Real GDP per capita in the United States, 1870-2019



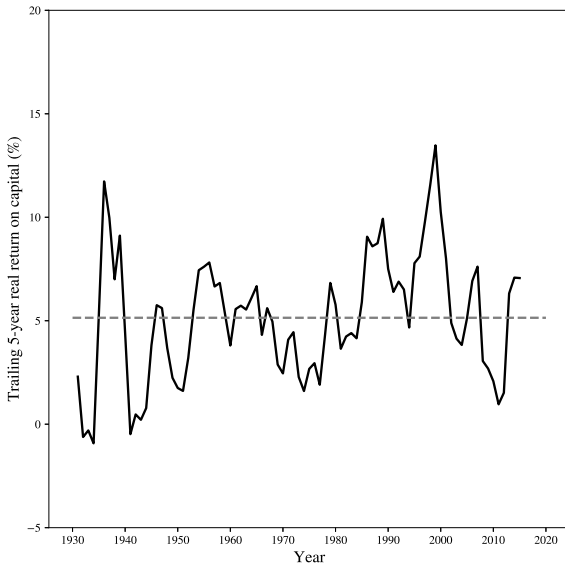
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# Real Rate of Return on Capital in the United States, 1870-2019



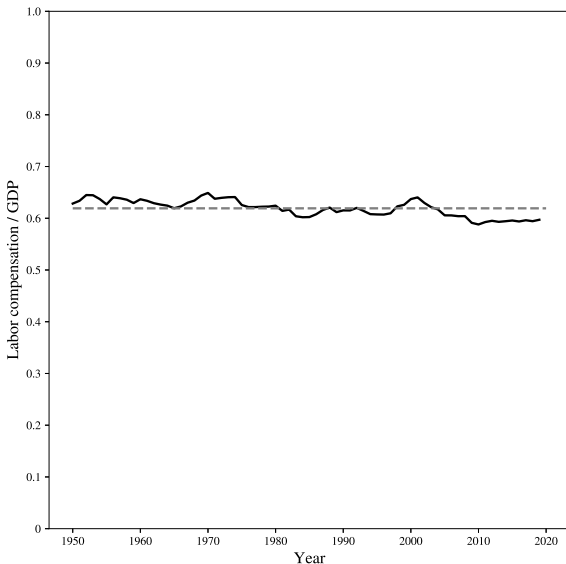
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# Labor Compensation as a share of GDP in the United States, 1948-2019



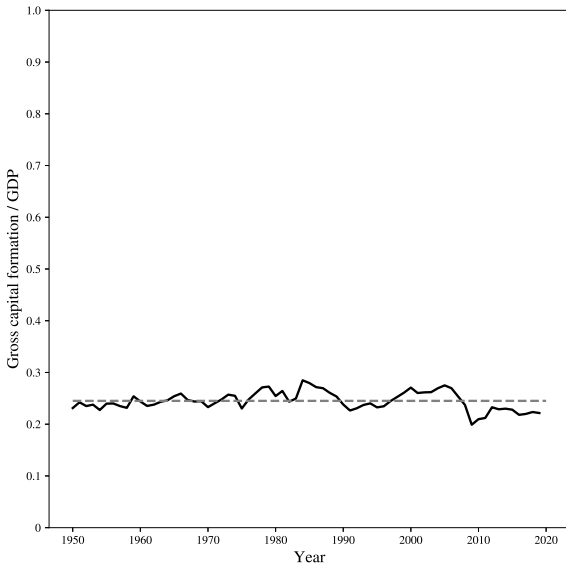
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# Gross Capital Formation as a share of GDP in the United States, 1948-2019



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