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What's Wrong With the Global Economy?

The problem goes much deeper than Trump or tariffs.

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Global markets were seized by fear last week that trade wars were slowing growth in Germany, China and the United States. But the story here is bigger than President Trump and his tariffs.

The postwar miracle is over. Since the financial crisis of 2008, the world economy has been struggling against four headwinds: deglobalization of trade, depopulation as labor forces shrink, declining productivity and a debt burden as high now as it was right before the crisis.

No major economy is growing as fast as it was before 2008. Not one is growing faster than 10 percent, the rate experienced by the Asian "miracle economies" before the crisis. In almost every country, the national discussion focuses on what must be done to revive growth and ignores the fact that the slowdown is driven by forces beyond any one government's control. Instead of dooming ourselves to serial disappointment and fruitless stimulus campaigns, we need to redefine economic success and failure.

Germany is one of at least five major economies on the verge of a recession, which is typically defined as two consecutive quarters of negative growth. But the real issue is whether that definition still makes sense in a country with a shrinking labor force like Germany's.

Its working population has been declining for years and is expected to fall to 47 million from 54 million by 2039. And it's not alone in this. Forty-six countries around the world — including major powers like Japan, Russia and China — now have shrinking populations.

Demographics are usually the main driver of economic growth, so it is basically inevitable that these countries will now grow at a much slower pace. And we are not talking about minor population declines. Projections for 2040 show China's working-age population falling by 114 million, Japan's by 14 million. With a shrinking labor force, these economies will

inevitably slow and, at times, contract. To keep calling two negative quarters in a row a "recession" implies that this outcome is somehow abnormal or unhealthy. That will no longer be the case.

To avoid overreacting, the discussion about economic health needs to shift to measures that better capture satisfaction and contentment, like per capita income growth. In countries with shrinking populations, per capita incomes can continue to grow so long as the economy is shrinking less rapidly than the population. This helps explain why, for example, Japan isn't facing more social unrest. Its economy has grown much more slowly than that of the United States in this decade, but because the population is shrinking its per capita income has grown just as fast as America's — around 1.5 percent per year.

Shrinking populations also help explain why unemployment is at or near multi-decade lows, even in countries with serious growth worries, like Germany and Japan. Gainfully employed Germans and Japanese won't really feel as if their countries are in a slump until per capita G.D.P. growth turns negative — which may prove to be a more useful way to think about recessions in this new era.

The definition of success also needs to change. Many emerging countries still aspire to the double-digit growth rates experienced by what were known as the "Asian miracle economies" from the mid-1960s to the early 1990s, when populations and trade were booming. But no economy had grown so fast before then, and as population and trade surges recede, it's unlikely any country can repeat those feats.

As growth downshifts, even little miracles are disappearing. Before the 2010s, it was common for one in every five economies to be growing at 7 percent or more annually. Now, among the world's 200 economies, just eight, or one in 25, are on track to grow 7 percent this year. Most of those are small economies in Africa.

When the news emerged that China's economy had slowed to just 6 percent, a new low, many investors and analysts rang the alarm bells. But the reality is that economies rarely grow as fast as 6 percent if the population is not booming too. Not only did China's working-age population growth turn negative in 2016, but it is one of the countries hardest hit by slumping trade, declining productivity and heavy debts. If the Chinese economy really were growing at 6 percent in this environment, it would be cause for celebration, not alarm.

The benchmark for rapid growth should come down to 5 percent for emerging countries, to between and 3 and 4 percent for middle-income countries like China, and to between 1 and 2 percent for developed economies like the United States, Germany and Japan. And that

should just be the start to how economists and investors redefine economic success.

This rethink is overdue. The number of countries with shrinking populations is expected to rise to 67 from 46 by 2040, and the decline in productivity growth is in many ways reinforced by heavy debt burdens and rising trade barriers. Redefining the standard of economic success could help cure many countries of irrational anxieties about "slow" growth, and make the world a calmer place.

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