GDP growth and our economic future

Margaret McDowell

Anything at all was more than we had ...” — from “In The Good Ol’ Days (When Times Were Bad),” as written by Merle Haggard

Will the American economy match its 2.9 percent third quarter GDP growth rate in this year’s final quarter? Maybe. But our annualized GDP growth rate for 2016 will likely be closer to 2.0 percent than to 3.0 percent.

The first modern attempt to measure the overall size of the economy, what we now call GDP, or Gross Domestic Product, was performed in 1934 to document the economic destruction caused by the Great Depression. The newly created metric indicated that the economy had actually shrunk substantially since the 1929 stock market crash. Eventually, increases in industrial production associated with the pre-WWII mobilization effort helped bolster our economic recovery and GDP more than doubled in the U.S. between 1940 and 1945.

The “Golden Age of Capitalism” and of powerful, consistent GDP growth began after WWII and coincided with the implementation of the Marshall Plan. The postwar economies of Western Europe rebounded as the U.S. invested in infrastructure to rebuild there. This international economic boom lasted for some 25 years, until the early 1970s. During this time, GDP growth in the U.S. averaged a steady 2.5 percent.

The “Golden Age” of growth ended in the early 1970’s due to multiple forces — the collapse of the Bretton Woods monetary system that had governed the global economy since 1944, the OPEC oil embargo, and the stock market crash of 1973-1974, which caused unemployment to skyrocket. Although growth somewhat reaccelerated in the 1990’s, presumably because of increases in productivity related to the information technology revolution and the dot-com boom, we haven’t really recaptured the powerful and sustained growth of the “Golden Age.”

So what will GDP growth resemble in the years ahead? We probably won’t see GDP growing at high- or even mid-single digit numbers anytime soon. As a nation’s economy gets larger, it takes more economic output in absolute terms to sustain the same high rate of growth. China is experiencing this fallback now, and it is unlikely that double digit growth there will occur again in the near future. The Chinese would have been dissatisfied a decade ago with a 9 percent growth rate; today a 9 percent growth rate there is probably unattainable.

Although the growth rate of the economy itself has slowed, quality of life in the U.S. for most folks is arguably far higher than it was in the “Golden Age” of GDP growth. The ability to have a face-to-face conversation with a loved one in real-time from the other side of the planet isn’t fully captured in a metric like GDP, but no one would argue that it isn’t a substantial improvement in quality of life.

Margaret R. McDowell, ChFC, AIF, author of the syndicated economic column “Arbor Outlook,” is the founder of Arbor Wealth Management, LLC, (850-608-6121 — www.arborwealth.net), a “fee-only” registered investment advisory firm located near Sandestin.