



DECLINING ECONOMIC GROWTH IN HIGH-INCOME COUNTRIES

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INTRODUCTION:

Economic growth in high-income countries, particularly in Europe and the United States, has been declining over recent decades, raising concerns about future prosperity and global economic stability. Two recent *Financial Times* articles examine the structural and external factors contributing to this trend, with Europe offering a case study in the challenges and potential pathways forward.

FROM POST-WAR PROSPERITY TO SLOWING ECONOMIC MOMENTUM:

After the Second World War, high-income nations experienced a period of rapid economic expansion driven by reconstruction, industrialization, rising consumer demand, and expanding labor forces. This growth was supported by technological innovation, increased educational attainment, and demographic booms. However, by the 1970s, growth rates began to decelerate. The transition to service-based economies, combined with diminishing returns from higher labor force participation and education, marked a turning point for sustained economic momentum (*Figure 1*).

Several structural factors contribute to the current slowdown. The pace of technological progress has decreased, with recent innovations—while transformative in some areas—not delivering the same broad-based productivity gains as earlier industrial revolutions. Aging populations (*Figure 2*) across high-income countries, particularly in Europe, have reduced labor force growth and increased dependency ratios, placing additional strains on public resources.

A series of shocks, including the 2008 financial crisis and the COVID-19 pandemic, have also weakened the global economy. These events have left lasting scars on investment, employment, and government debt (*Figure 3*), further constraining growth potential. In Europe specifically, persistent regional income disparities, compounded by fragmented economic policies, exacerbate the problem.

Europe's political fragmentation and regulatory conservatism intensify its economic challenges. As Mario Draghi, former president of the European Central Bank, highlights, successful economic strategies require alignment across investment, taxation, education, finance, regulation, trade, and foreign policy—an ambitious goal for the EU. Draghi underscores that Europe's fragmented governance structures and resistance to radical change make such cohesive strategies difficult to implement.

Surging nationalism (*Figure 3*) across Europe further complicates efforts for collective action. The rise of nationalist politics has led to a weakening of multilateral cooperation, making the pursuit of unified strategic goals more challenging. This trend threatens to undermine the very principles of unity and collaboration that have historically driven Europe's economic success

PATH FORWARD:

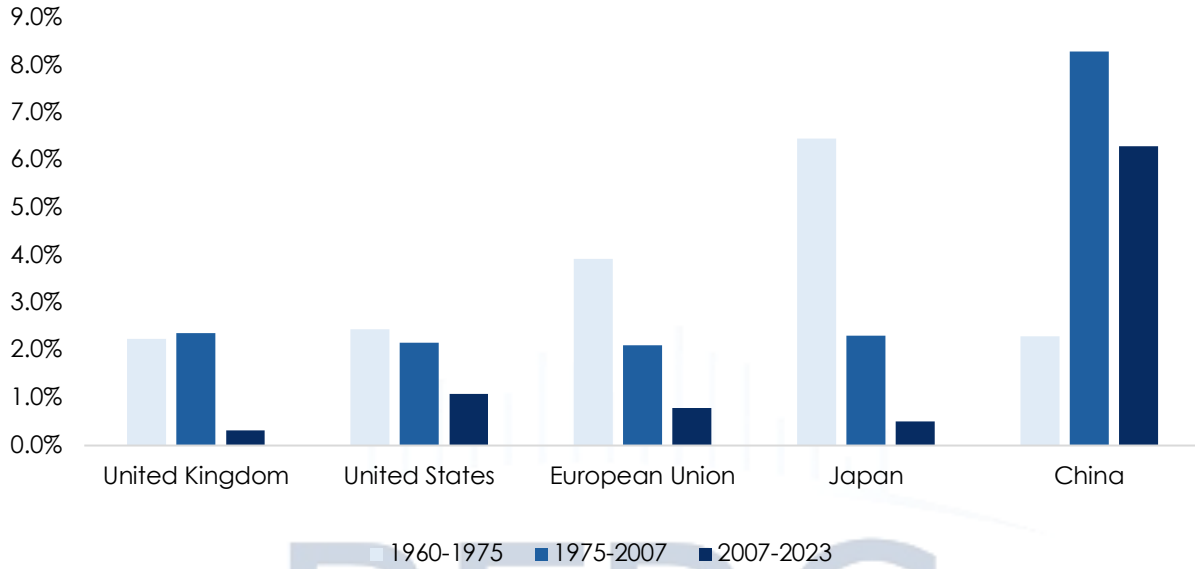
Despite these challenges, there are pathways to reinvigorate growth. Addressing regional disparities through targeted investments in infrastructure and education could help unlock untapped economic potential. Strengthening EU cohesion through deeper integration and economic reforms is another critical step. Policymakers must also focus on fostering innovation by investing in transformative technologies, such as artificial intelligence and green energy, which hold the potential for significant productivity gains.

The declining growth rates in high-income countries reflect a combination of structural inefficiencies, demographic trends, and political fragmentation. Europe, in particular, serves as a microcosm of these challenges. As Draghi emphasizes, overcoming these hurdles requires unified and radical reforms. However, surging nationalism threatens the spirit of collaboration necessary for such changes.

FIGURES:

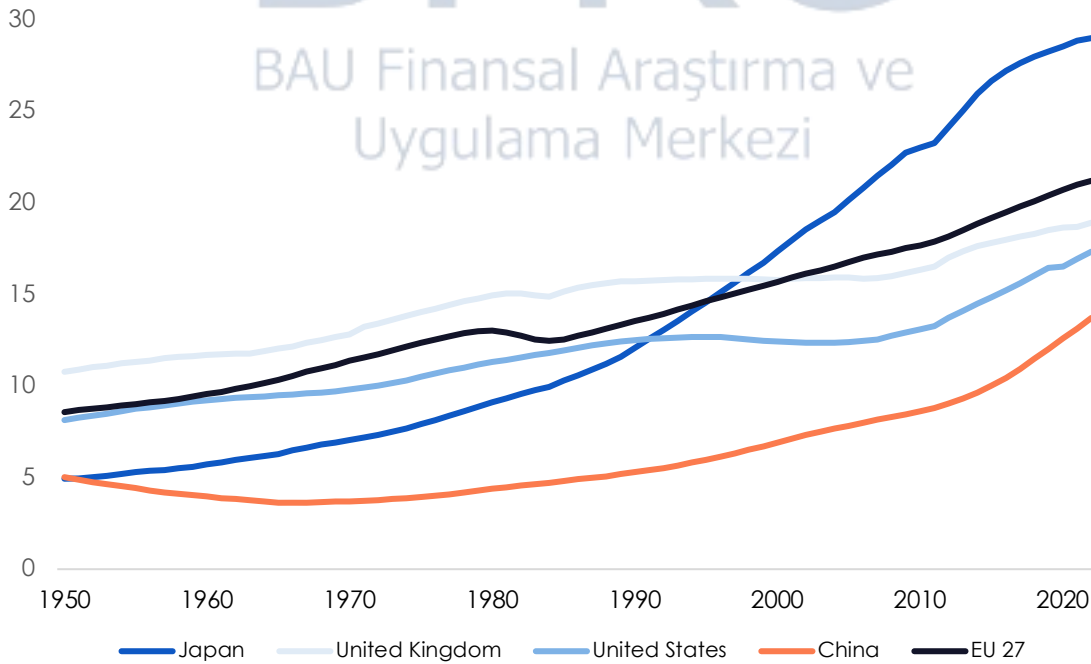
Economic growth has slowed drastically since 2007 in high-income countries

Annualized GDP per capita growth (1960-2023) (Figure 1)



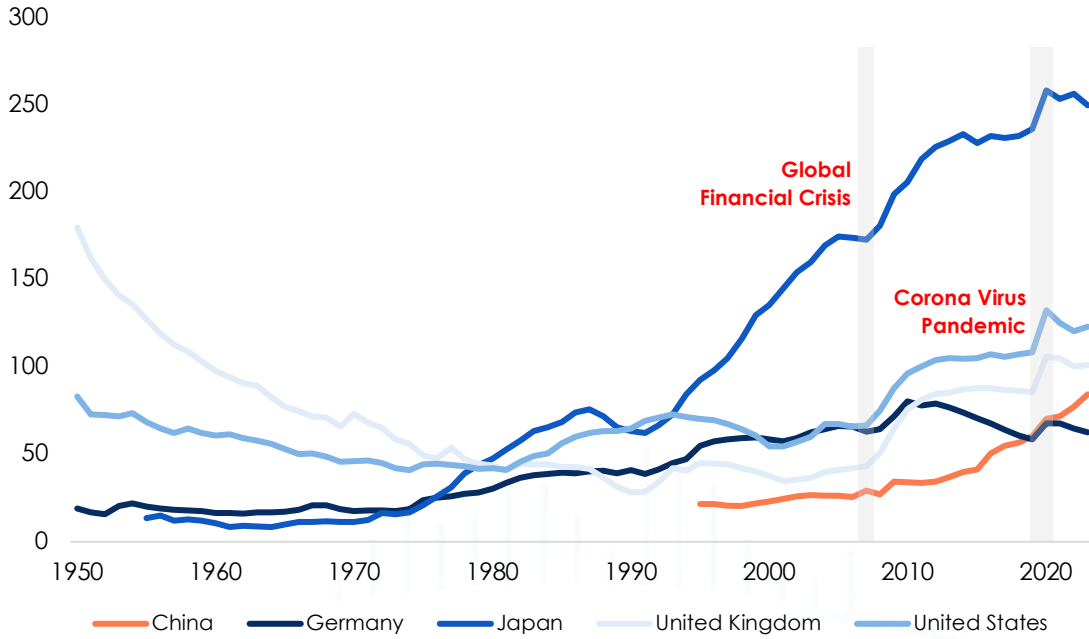
The aging population has been increasing in most high-income countries

Share of over 65 years old population (1950-2023) (Figure 2)



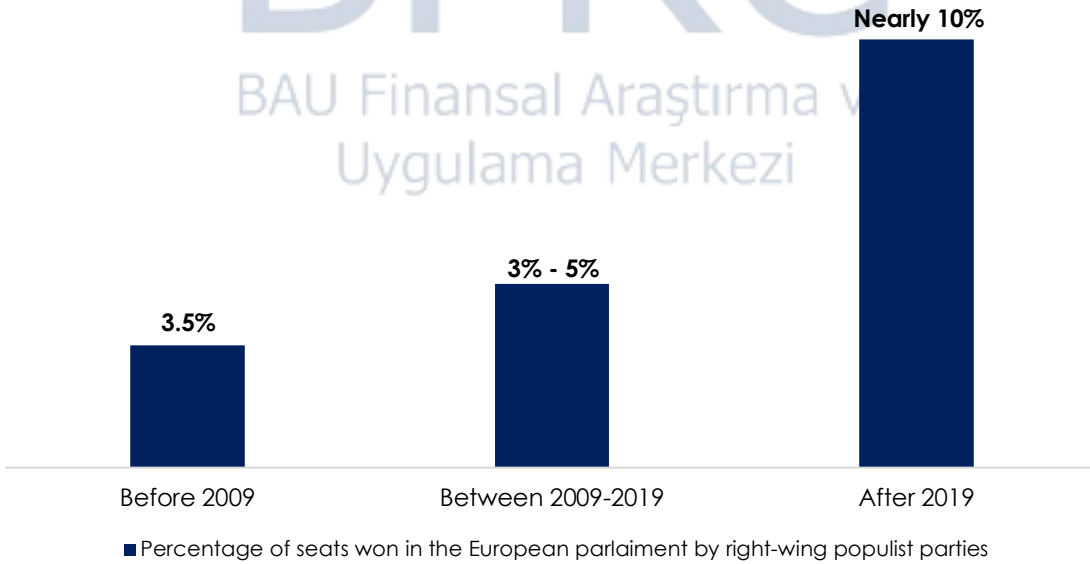
Public debt stabilized during the post-war period but has been increasing since 2007

Government debt as % of GDP (1950-2023) (Figure 3)



As economies are taking a hit and disparities increase, isolationist movements gain favor in the political spectrum

(Figure 4)



NOTES:

1. worldbank.org
2. oecd.com
3. imf.org
4. statista.com

SOURCES:

1. <https://www.ft.com/content/78df4930-f012-4cbb-92a4-38df79a580e9>
2. <https://www.ft.com/content/47d28f39-6f9d-4c46-9e36-c45a9f398a62>

