Terence Corcoran: Sunny forecast rains on gloomfest

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***A ‘Super Cycle’ of growth? Don’t tell Davos***

A dark cloud has descended over the annual World Economic Forum in Davos, Switzerland, where the world’s corporate and political elites gather this week to review the sorry state of the world and plot reform. It’s the cloud with the silver lining: The world may be on the brink of a major outbreak of growth and wealth creation.

The prospect of a bright global economic future filled with expanding trade, innovation, production and income distribution received a boost Monday when Bloomberg News reported that several economists attending the annual Davos gabathon were forecasting a major long-term growth cycle.

In fact, it’s called a “Super-Cycle” that will last a couple of decades and will leave no economy behind, blowing prosperity throughout the four corners of the globe — even to the gloom-infested United States.

This shocking idea, an extended period of high growth lasting decades, isn’t quite new. It was first promoted last November by Gerard Lyons, chief economist at Standard Chartered, the London bank, in “The Super-Cycle Report,” a 150-page burst of forecasting optimism that claimed, among other things, that the global economy would grow 3.9% annually over the next 20 years, compared with 2.8% between 1973 and 2000.

Thinking beyond the super cycle is Nobel winner Edward Prescott. “The whole world’s going to be rich by the end of this century,” said Mr. Prescott, an expert in business cycles and an advisor to the Federal Reserve Bank in Minneapolis. The integration of China, India and other developing countries into an increasingly globalized economy will generate commerce and investment, spreading wealth everywhere.

Are these economists crazy? Don’t they read the news — and the official Davos outline of the sorry state of the world economy? The official slogan for this year is, “Shared norms for a new reality,” a vacuous theme supposedly reflecting “a world that is becoming increasingly complex and interconnected and, at the same time, experiencing an erosion of common values that undermines public trust in leadership as well as future economic growth and political stability.”

So there’s the choice: Either the world is on the verge of new decades of progress and economic development, in which no country will be left behind — or we are doomed to wallow in self-doubt, moaning incessantly about growing complexity and filling our futures with endless existential concerns about lost common values.

Obviously the future is not bound by two alternatives, but it is far more likely, if not quite inevitable, that a few decades from now the world economy will have advanced to new levels of output. As for the century, that’s a long time in economics. But if it were possible to collect on a 100-year wager, it would be safe to bet the farm that by some definition we’ll all be rich by 2100.

The Standard Chartered bank’s Super-Cycle Report offers up the usual forecasting techniques to prove the theory that a new growth cycle is in place. A super cycle is defined as a period of high global growth that lasts a generation or more driven by “increasing trade, high rates of investment, urbanization and technological innovation, characterized by the emergence of large new economies.”

Economists have long entertained the idea of long-range economic cycles. The most famous cyclist is Nicolai Kongratief, a Russian communist who invented the idea that capitalism created long-term periods of boom and depression that lasted for 50 to 60 years. The theory proved to be bogus, and nobody puts much faith in Kongratief waves these days.

Whether the Standard Chartered super-cycle report represents a revival of discredited Kongratief thinking is not clear. The bank’s economists, led by Mr. Lyons, said the world has enjoyed a supercycle only twice before — from 1870 to 1913 and after the Second World War.

But it doesn’t much matter if the super-cycle theory is technically true or another Kongratief blunder. The overwhelming evidence of the past 150 years is that massive expansions of economic activity are possible and are likely to continue.

What drives that growth and prosperity? Free trade, globalization and other economic factors certainly contribute. In a recent dazzling book on long-term economic development, British economist Deirdre McCloskey identified what may well be the vital force that has propelled the world to greater and greater levels of individual achievement and accomplishment.

Beginning in 1800, and continuing through to today, the world has been in the grip of expanding innovation via the triumphant rise of a commercial class that spread innovation around the world. In 1800, the average standard of living was equal to the current standard in Chad or Bangladesh — maybe $3 a day. Today, in richer countries, the standard is more like $130 a day. The reason for the change was the acceptance of idea that innovation was desirable, necessary and allowable. It was, writes Ms. McCloskey in Bourgeois Dignity: Why Economics Can’t Explain the Modern World, “a novel and immense and sustained, almost lunatic, scale of innovation, breaking the Malthusian curse,” which assumed there were limits to growth.

The rise of China and other developing countries, where the current average standard of living is still not much better than a hundred years ago, represents the unleashing of innovation in cultures where innovation has been largely repressed. As the freedom to innovate continues to expand, it is likely to transcend the repressive regimes that today rule China and other countries.

That’s what makes predictions of a super cycle and a century of growth seem perfectly realistic.

Such bouts of optimism are not always welcome at central gatherings like Davos, where people and activists trade on fear of pending disaster or signs of failure. The idea that some part of the world economic system seems to be failing is the grist that drives the mill of new government policies and corporatist pressure for preferential treatment. Dark predictions that the world is running short of food or producing too much carbon, and is also adrift in an immoral lifeboat on a sea that’s too complicated to understand — that’s the stuff that gives the World Economic Forum a reason for existence.

If the world is on the road to a brighter future, why does the world need a World Economic Forum?

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