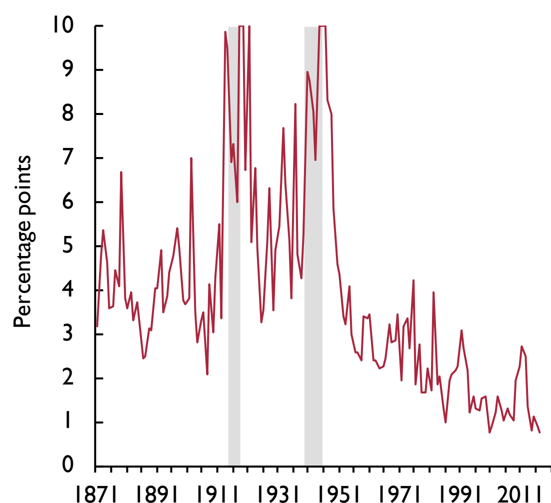
The Great Synchronisation

Economic growth has risen in a synchronised manner around the world in recent years (King, 2018; IMF, 2018; Naisbitt *et al.*, 2018), but to what extent is synchronised growth unusual? In this box, I investigate the degree to which economic growth has been synchronised across twenty OECD countries from the first age of globalisation to the present.

A simple measure of synchronicity is the standard deviation of the rate of economic growth across countries. Figure 1 plots how this measure has evolved over time, where a lower (higher) standard deviation represents higher (lower) synchronisation.[1] Three distinct eras of synchronisation can be seen: an era of moderate synchronicity *c.*1870–1913, an era of low synchronicity *c.*1914–45, and an era of high synchronicity *c.*1945 onwards. The first era is well known by economic historians. This was the first age of globalisation (Ferguson and Schularick, 2006), which was a period of high international trade underpinned by the classical gold standard – a fixed exchange rate system adopted by two-thirds of the world's economies (Reinhart and Rogoff, 2011). The second era spans the beginning of the Great War to the end of the Second World War. This was a time of rising protectionism and a breakdown of the international monetary system (Findlay and O'Rourke, 2007). The third era is the 'Great Synchronisation'. In the aftermath of the war, the Bretton Woods conference laid the foundations for new international economic institutions, such as the International Monetary Fund, World Bank and World Trade Organization.

After a long, secular decline in the dispersion of world economic growth, 2017 was by this measure the most synchronous year on record. Of the twenty advanced economies in the sample, the minimum rate of growth was 0.7 per cent, while the highest was 3.2 per cent. The simple fact that growth was positive in all countries is rare, occurring in only sixteen years since the 1870s. One explanation could be that the financial crisis was a large global shock that reset the clocks on economies around the world, plunging each into recession and then recovery. As the shock fades over time, however, these countries might tend to move out of sync as growth runs at slightly slower and faster rates across countries, in line with the growth of the supply sides of the respective economies. Yet while this explanation might explain the high synchronicity since the crisis, it misses the long-run factors that set the Great Synchronisation in train in 1945. A central factor has been the development of international economic institutions that have lowered the barriers to the movement of capital and goods, tying the fortunes of distant economies together.

Figure 1. Standard deviation of real GDP per capita growth, 1871–2017



Sources: Bolt *et al.* (2018) and NiGEM database.
Notes: Shaded areas represent world wars. Based on a balanced sample of 20 OECD countries that have unbroken historical national accounts stretching back to 1870, including Australia, Austria, Belgium, Canada, Chile, Denmark, Finland, France, Germany, Greece, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States. Results have been capped at 10 percentage points for clarity.

NOTE

1 A similar pattern is seen in the cross-country standard deviation of the *change* in growth rates.

REFERENCES

Bolt, J., Inklaar, R., de Jong, H. and van Zanden, J.L. (2018), 'Rebasing "Maddison": new income comparisons and the shape of long-run economic development', *GGDC Research Memorandum* 174.

Ferguson, N. and Schularick, M. (2006), 'The empire effect: the determinants of country risk in the first age of globalization, 1880–1913', *Journal of Economic History*, 66, pp. 283–312.

Findlay, R. and O'Rourke, K.H. (2007), *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*, Princeton University Press.

IMF (2018), *World Economic Outlook: Cyclical Upswing, Structural Change*, International Monetary Fund, April.

King, S. (2018), 'Why the global economy is due for a downswing', *Financial Times*.

Naisbitt, B., Hantzsche, A., Lennard, J., Lenoel, C., Liadze, I., Lopresto, M., Piggott, R. and Thamotheram, C. (2018), 'The World Economy', *National Institute Economic Review*, 243, F43–80.

Reinhart, C.M. and Rogoff, K.S. (2011), 'From financial crash to debt crisis', *American Economic Review*, 101, pp. 1676–706.

This box was prepared by Jason Lennard.