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# OECD Growth

Not too many years ago, the Organisation for Economic Co-operation and Development (OECD) was characterized as the "rich man's club" of international economic organizations. Comprising the relatively mature, industrialized economies of the West, the OECD represented a relatively homogenous collection of nations. With the addition of new members in recent years—including Mexico, Korea, and some of the nations of Eastern Europe—the OECD is now a far more dissimilar group.

This diversity is reflected in recently published projections for economic growth in OECD countries. As shown in the table, growth estimates for 2004 and projections for 2005 display a fairly wide range. In 2004, the fastest growing economy in the OECD was Turkey, with a growth rate of 9.8 percent. Other rapidly growing economies include Iceland, Ireland, Korea, and the Slovak Republic. Relatively speaking, the older members of the "club" experienced much slower growth in 2004. Austria, Germany, Italy, the Netherlands, Portugal, and Switzerland all grew at rates below 2 percent.

The differences among growth rates are consistent with some basic principles of economic growth theory. In particular, the less mature industrializing countries of Central and Eastern Europe, along with Mexico and Korea, have lower output and capital per worker than do the older members of the OECD. The principle of "convergence" suggests that these economies should experience more rapid growth through capital accumulation as development proceeds and standards of living rise to meet those of the richer nations.

Other patterns are also revealed in the data. Countries that are experiencing relatively rapid growth also display either high rates of population growth or high rates of productivity growth. In countries with rapid growth of population or labor participation rates, more rapid economic growth is a natural outcome of increasing employment. In 2004, the countries with the most rapid rates of labor force growth include New Zealand, Spain, Korea, Luxembourg, and Mexico. The other source of economic growth is labor productivity. Nations on the high end of the scale of productivity growth include Iceland, Poland, the Czech Republic, Sweden, and Norway. Increases in productivity are the holy grail of economic growth: Rapid rates of increase in output per worker are translated directly into higher standards of living.

| | Real GDP growth (% Δ from previous year) | |
|---|---|---|
| | 2004 | 2005 |
| Australia | 3.6 | 3.8 |
| Austria | 1.8 | 2.3 |
| Belgium | 2.7 | 2.4 |
| Canada | 3.0 | 3.3 |
| Czech Republic | 3.9 | 4.2 |
| Denmark | 2.4 | 2.7 |
| Finland | 3.1 | 2.8 |
| France | 2.1 | 2.0 |
| Germany | 1.2 | 1.4 |
| Greece | 3.8 | 3.2 |
| Hungary | 3.9 | 3.6 |
| Iceland | 5.9 | 5.2 |
| Ireland | 4.9 | 5.5 |
| Italy | 1.3 | 1.7 |
| Japan | 4.0 | 2.1 |
| Korea | 5.0 | 4.5 |
| Luxembourg | 4.2 | 4.5 |
| Mexico | 4.2 | 3.9 |
| Netherlands | 1.2 | 1.2 |
| New Zealand | 4.8 | 2.1 |
| Norway | 3.2 | 3.2 |
| Poland | 5.4 | 4.3 |
| Portugal | 1.5 | 2.2 |
| Slovak Republic | 4.9 | 4.8 |
| Spain | 2.6 | 2.7 |
| Sweden | 3.3 | 3.3 |
| Switzerland | 1.9 | 1.9 |
| Turkey | 9.8 | 6.4 |
| United Kingdom | 3.2 | 2.6 |
| United States | 4.4 | 3.3 |
| Total OECD | 3.6 | 2.9 |

SOURCE: *OECD Economic Outlook*, No. 76, December 2004.

Among the more highly developed economies, the growth rate of the United States stands out. At 4.4 percent, the U.S. growth rate in 2004 significantly exceeded the growth rates of Western European countries such as Germany, France, and Italy. It is also notable that the strong growth performance in the United States has been driven by rising productivity: Productivity growth in the U.S. was 3.7 percent in 2004 and is projected to advance at a healthy 2.0 percent rate in 2005.

The differences in growth rates among the advanced economies are also important for evaluating cyclical movements of the U.S. trade deficit. Relatively rapid growth in the United States implies strong import demand, while slower growth among our large trading partners in Western Europe dampens demand for U.S. exports. With the projections indicating a moderation of growth in the United States and modest increases in the growth rates of Western European economies, at least one source of pressure driving a widening U.S. trade deficit should subside in 2005.

—Michael R. Pakko