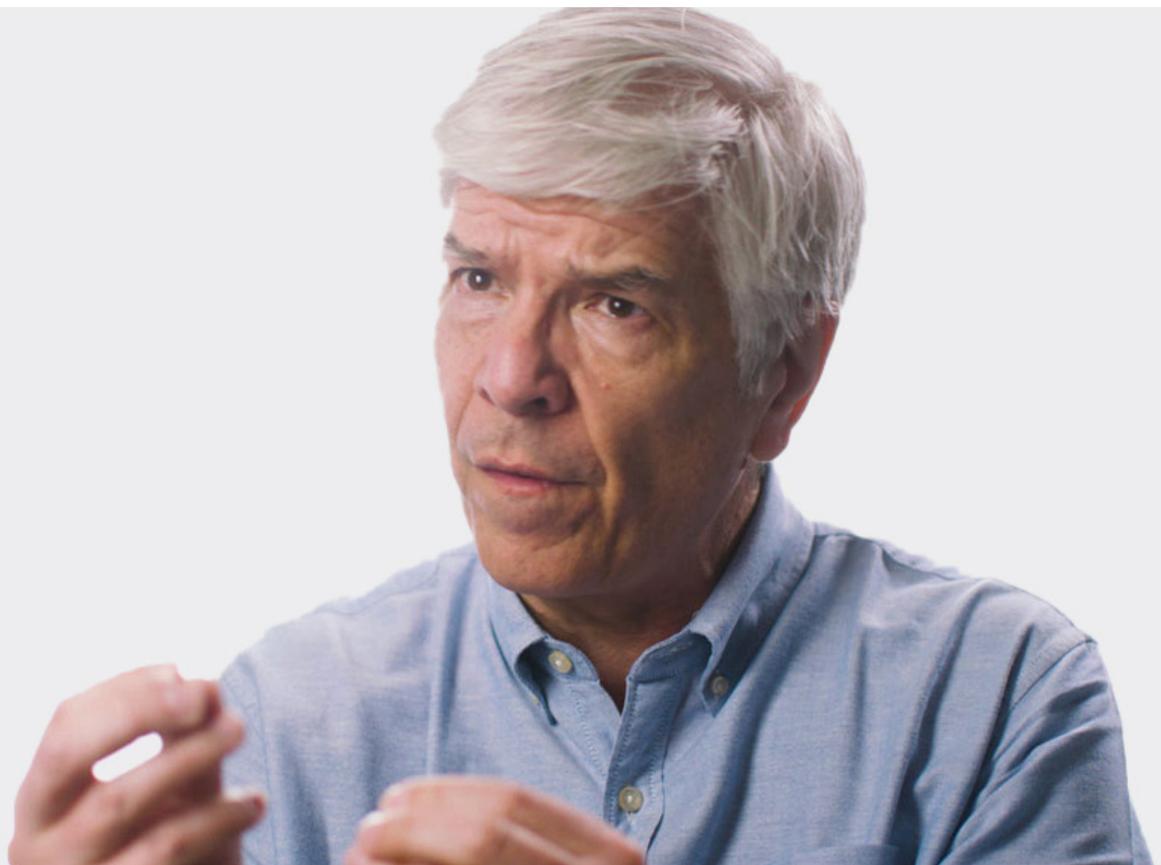


A Nobelist on government's role, the power of ideas, and how to measure progress: An interview with Paul Romer

“Ideas mean that we can have sustained economic growth, and we will not only have more stuff but be better people.”



Inequality is rising within developed economies, and net incomes are flat or falling as well. But GDP per capita is steadily rising in these countries at the same time. Are we measuring the wrong metric when it comes to progress?

In this interview with McKinsey's Rik Kirkland, the Nobel Prize-winning economist suggests an alternative measurement to GDP per capita and talks about how innovations, the market, and governments work together to create progress for everybody.

How ideas sustain growth

I worked on the specifics of how technology leads to economic growth. And I think it's very important with a term like growth that you have some idea of a metric. So, GDP per capita is the established metric.

And it's not perfect, but it clarifies our conversations if we stay focused on a measure because if we start throwing around different measures, we end up getting confused. So, in terms of GDP per capita, part of what I showed was that ideas are incredibly powerful and incredibly encouraging, because they can sustain growth even in a world where objects and resources are scarce.

Over time, what emerged from that work was that ideas have this other benefit, which is that we start to see other people as allies because if they discover something, we can benefit from their discovery. We can be rivals over a deposit of copper, and more people means less copper per person. So, in that sense, we're rivals.

But if somebody discovers a better way to use copper or an alternative to copper, we can all benefit from the discovery. Ideas mean that we can have sustained economic growth and we will not only have more stuff but be better people in the sense of connecting with, and appreciating, others; not seeing them as hostiles.

Protecting the ship

A colleague of mine has a daughter who's in the navy. And she told me that one of the things they say, at least if you're the commander of a ship, is that you tell everybody on the ship that your priorities are the ship, your shipmates, and yourself. So, ship, shipmate, self.

Part of the insight of economics is that if you structure things appropriately, self-interest (which is always there) can lead to good outcomes. What we haven't done effectively enough is talk about protecting the ship. How do we protect the ship and commit together to build the values and systems that protect the nation? How do we make sure everybody feels like they are protected and they're part of this process of making progress?

One approach is to take GDP per capita, where we're seeing growth, and then bring alongside some measure of the distribution of income. And the trend has been, in the last several decades, toward a more unequal distribution.

That debate has gotten stuck around how to weigh one trend which is positive and one which is negative. How do we decide whether we, on net, are making progress, and to what extent does having more of one mean more of the other?

It helps to just commit in advance to a measure I've always looked at as a sense of progress, which is: Are people living longer, healthier lives? This is a measure that is not subject to the sort of biases and flaws of GDP, or GDP per capita, and it's something we can track over time. It's a good way to show the amount of progress we've made.

But the really stunning result for me is that, by that metric, the United States is no longer making progress. The average number of years that people in the United States live peaked several years ago and is now falling. And so, we need to just confront the fact that we're not making

the progress that's possible and make some adjustments that involve thinking carefully about how to protect the ship. Because if we don't make progress for everybody in the nation, the nation's going to fail.

How government and markets create progress

We need to go back to a nonideological, open-minded look at just the facts. Where does it work? Where doesn't it work? And how do we make it work better?

One of the ways to depoliticize some of these issues is to look from a great distance. So, when I talk about the best innovations that humans have ever come up with, one of the most important was urban settlement, which started about 10,000 to 12,000 years ago.

Think about that as an innovation. It had many beneficial dimensions to it. It let us trade with one another. It let us learn with one another. It let us specialize. But it had a real negative consequence

as well, which is that when we started living in dense cities, infectious diseases became more common and we weren't living longer. So, for a long time, people living in cities died younger, on average.

The way we solved that was a commitment to the facts. We have this other innovation, science, which tells us what is actually causing us to die earlier. Once you identify things like contaminated drinking water as a vector for spreading infection, then you have the government, which enacts measures that protect everyone, such as a requirement to hook up to a sewer.

The way we've made progress is we have a decentralized, profit-based system of the market that generates a bunch of innovations. Innovations create possibilities, and some are good; some are bad. The government is the best tool we've ever developed for identifying the bad possibilities. And if you stop the bad ones, then the market innovation leaves you with the good ones. And it's the combination of the government and the market together that generates progress.

Paul Romer is a corecipient of the 2018 Nobel Prize in Economic Sciences and professor of economics at New York University. **Rik Kirkland**, a partner in McKinsey's London office, conducted this interview.

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