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FT Financial Times Column

The global economy has entered unexplored, dangerous territory

October 10, 2016

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As the world's finance ministers and central-bank governors came together in Washington last week for their annual global financial convocation, the mood was somber. The specter of secular stagnation and inadequate economic growth on the one hand, and ascendant populism and global disintegration on the other, has caused widespread apprehension. Unlike in 2008 (when the post-Lehman Brothers crisis was a preoccupation) or 2011 and 2012 (when the possibility of the collapse of the euro system concentrated minds), there was no imminent crisis. Instead, the pervasive concern was that traditional ideas and leaders are losing their grip and the global economy is entering unexplored and dangerous territory.

The International Monetary Fund's growth forecast released just before the meeting was once again revised downward. While recession does not impend in any major region, growth is expected at rates dangerously close to stall speed. Worse is the spreading realization that the central banks have little fuel left in their tanks. Recessions come intermittently and unpredictably. Containing them generally requires 5 percentage points of rate cuts. Nowhere in the industrial world do central banks have anything

like this kind of room, even allowing for the effects of unconventional policies such as quantitative easing. Market expectations suggest that it is unlikely they will gain much room for years.

After seven years of consistent over-optimism about economic prospects, there is a growing awareness that growth challenges are not so much a matter of the lingering effects of the crisis as they are of structural changes in the global economy that contributed to the crisis and the problems in its aftermath. There is increasing reason to doubt that the industrial world can simultaneously enjoy interest rates that support savers, financial stability and adequate growth. Saving has become overabundant, new investment insufficient and stagnation secular rather than transient.

It can hardly come as a great surprise that when economic growth falls short year after year, and when its beneficiaries are a small subset of the population, electorates turn surly. Looking back at the political traumas of 1968, when people were in the streets in many countries, it's clear that there was something going on beyond specific issues like Vietnam in the United States. In the same way - with Brexit, the rise of Donald Trump and Bernie Sanders, the strength of right-wing nationalists in Europe, Vladimir Putin's strength in Russia, and the return of Mao worship in China - it's hard to escape the conclusion that the world is seeing a renaissance of populist authoritarianism.

These developments are mutually reinforcing. Weak economics promote angry politics which raise uncertainty, leading to still weaker economics starting the cycle again. Publics have lost confidence both in the competence of economic leaders and in their commitment to serving broad national interests, rather than the interests of a global elite. A number of longtime economic leaders in the public and private sector seem to be

making their way through the grief cycle - starting with denial, moving to rage, then to bargaining and ultimately to acceptance of new realities.

It is not tenable to ignore public sentiment. Nor, as 60 years of populist policy cycles in Latin America demonstrate, is economic nationalism in its strong form a viable economic strategy. Rather, the challenge for the international community and leaders of individual nations is to find a path in which international cooperation is supported and enhanced, but instead of being focused on matters of concern to moralists and global elites is focused on the priorities of a broad middle class.

Concretely, this means rejecting austerity economics in favor of investment economics. At a time when markets are saying that inadequate rather than excessive inflation will be the problem over the next generation, central bankers need to embrace spurring demand as a primary objective and to cooperate with governments.

Enhancing infrastructure investment in the public and private sector should be an immediate priority for fiscal policy. Domestically, this means recognizing that such a course has budget benefits, as the economy expands and deferred maintenance liabilities are reduced, as well as budget costs. Globally, it means recognizing that enhanced tools for infrastructure finance offer the prospect of more investment demand and better returns to middle-class savers.

And the focus of international economic cooperation more generally needs to shift from opportunities for capital to better outcomes for labor. The achievement of this objective will require substantially enhanced cooperation to address what might be thought of as the dark side of capital mobility - money laundering, regulatory arbitrage and tax avoidance and evasion.

These are a few ideas. The general point should be clear. Few things will be as important to the success of the next president as the restoration of confidence in the global economy.

The writer is Charles W Eliot university professor at Harvard and a former US Treasury secretary.