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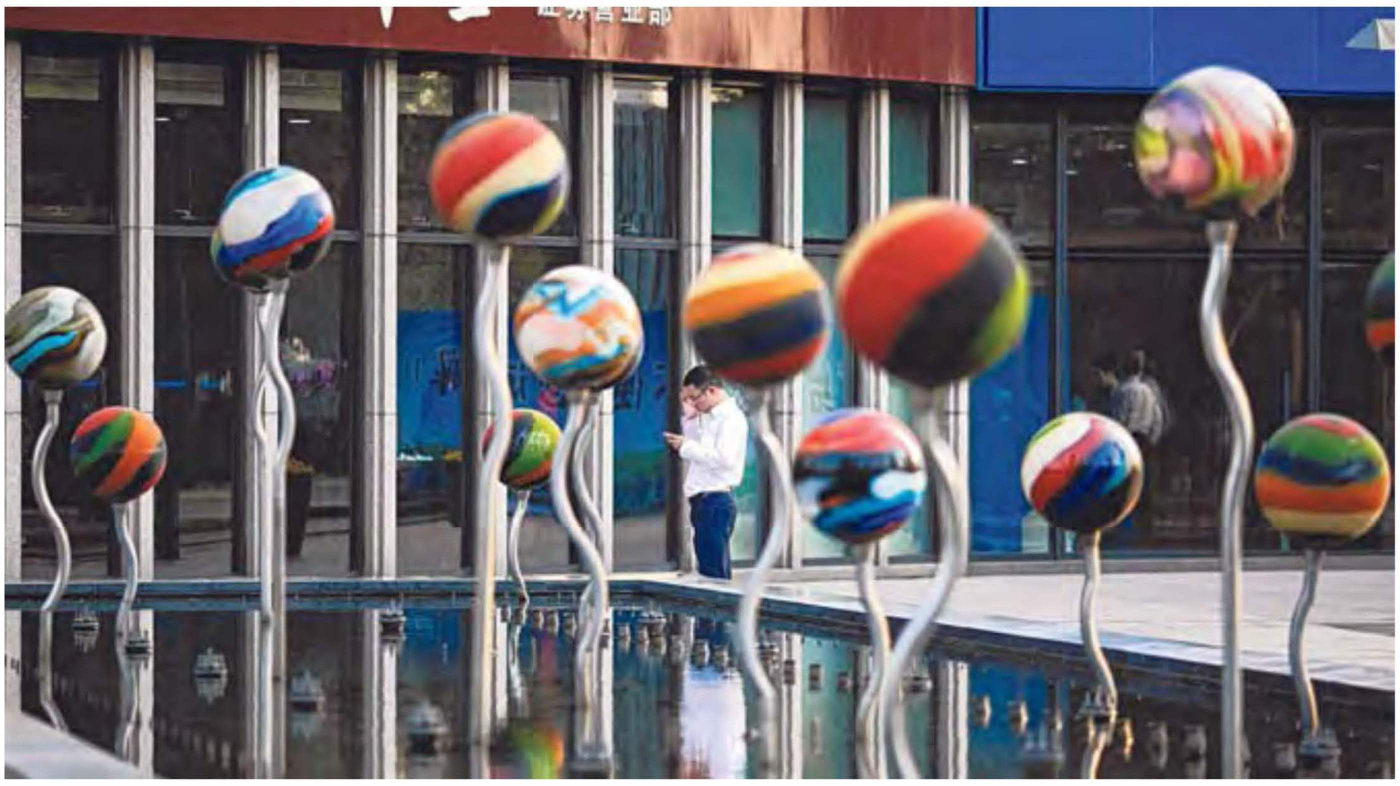

The way ahead is to accommodate the momentous swing in consumption versus communication that discloses human behavioural patterns apparently different from past assumptions.
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Global recovery: this time it's different

Seeing the economy through the prism of yesterday's parameters no longer applies. BY JOERGEN OERSTROEM MOELLER

THE moaning about the state of the global economy has now become almost deafening. The chorus is closing ranks around a battle cry for increased demand, which is nowhere to be seen. We do not, however, live in an economy responding in the same way to economic policies as it did until, say, 10 years ago. Policies applied would have elicited a robust global recovery .

Global debt is paralysing the global economy. In the year 2000, its share of gross domestic product(GDP) was 160 per cent. Today it is more than 215 per cent and is still rising.

Unanimity among economists to guide major economic powers through the debt crisis is conspicuously absent. The US Federal Reserve and the European Central Bank (ECB) – though less likely the Japanese central bank – will eventually rein in surplus liquidity. When they start to do so, interest rates will go up and recalling the debt burden will turn net interest payments into an insurmountable barrier for recovery.

The brutal reality is that debt has to be repaid through future under-consumption relative to production proportional to past over-consumption that produced the debt burden. The way ahead is to engineer an understanding that over, say, five years, interest will still be paid, but repayment will be put on hold.

In reality, part of the burden of repayment (under-consumption) is shifted to creditors who will see purchasing power of their assets decline over time on top of being forced to postpone consumption. Notwithstanding this, it should be palatable for them. First, global growth will be higher, which will also benefit creditors. Second, the current deflationary bias mitigates the decline in purchasing power.

Taken together, creditors may, after some equivocation, prefer such an outcome to a lacklustre global economy raising the prospect of default, ultimately costing them much more.

The global economy is out of sync. The major economies fence alone. US economic policy is without firm direction, but mostly on a cautious (some would say tepid) growth path. The European Union (EU) has favoured austerity, which is being tacitly toned down. China is trying to restructure its economy. Japan is stuck in the doldrums without much hope of getting out. India is waiting to see whether Prime Minister Narendra Modi will succeed in turning the country into a manufacturing nation.

Without a firm commitment to coordinating policies, currency rates fluctuate, reacting to even the slightest or most unlikely whim. The ghost of competitive devaluations is waiting in the wings; omens of semi-protectionism cannot be disregarded as the cases brought to the World Trade Organization (WTO) demonstrate.

The markets are without direction – a clear sign that something is wrong – igniting volatility that traditionally heralds a downturn. The way ahead is for major economic powers to get together and map out a coordinated, maybe even a common, approach. The world is crying for global governance.

There is no consensus economic model. A decade ago, the Washington consensus reigned – but no longer does. Most countries eschew that model after seeing the calamities flowing from the global financial crisis; it goes for countries where it struck root and for those in search of a model. The result is a stop for further global trade liberalisation, giving regional free trade agreements new wind in the sails – a second-best solution and harbouring the risk of non-trade measures as part of the package.

In the long run, economic globalisation will encounter obstacles without a common or at least congruous economic model facilitating global governance. The way ahead is not easy to spot without a common model. Looking at the major economic powers, no signs are visible of such a model. Maybe the best we can hope for is a deeper understanding of how different economic models around the world can co-exist.

UNFORTUNATE SPILLOVER

Corporate governance is caught in the maelstrom after the global financial crisis. The lessons have still to sink in. Corporate governance is primarily an American phenomenon and its attractiveness is fading, as is the case for the US economic model. Behind the veil, corporate governance American-style is synonymous with deliberate and continuous rise in quarterly profits.

The stock market and behavioural patterns for investment funds have locked into this reality. Indeed, they may have produced it, generating wild swings in stock prices and creating hysteria if forecasts for future profits deviate from the expectations of analysts. The long-term perspective seems to be forgotten. That has an unfortunate spillover to the next item.

The world faces scarcities when it comes to food, resources, energy, water and clean environment. Rising prices and physical scarcities in all five sectors are common and visible. Temporary deviations from the trend pop up from time to time – as the current fall in oil prices demonstrate – but cannot hide this trend.

Scarcities change the paradigm, but it has not been incorporated in economic thinking and business practice that resources are finite. They are priced at extraction costs. Prices for goods and services are set by short-term market conditions. Short-term profit-seeking establishes a price structure luring corporations to adopt unsustainable production methods based on artificially low resource prices, inevitably resulting in resource-intensive methods. Adjustment to higher resource prices is postponed, promising that when it comes it will be worse than in 1973/74 when oil prices rose 400 per cent, followed by another hike – this time 100 per cent – a few years later.

The way ahead is to promote interests in resource-saving production processes and less materialistic consumption by making it more expensive to use resources, possibly through levies and taxes. Recycling, remanufacturing, 3-D disassembling can all be mobilised as new technologies. Ultimately, we move towards a resource-neutral economy whether we like it or not (carbon neutrality is a step in that direction). The sooner we come to grips with this future trend the easier it becomes to live with it.

Mass consumption has ruled economics for more than 100 years. Now it is being replaced by mass communication. Production processes will enjoy enhanced productivity, but only if corporations and governments understand that the determining factor is not the technology, but how it is applied.

A study tells, not surprisingly, that the top 20 in global innovation are industrialised countries, but also – and that may be a surprise – that the group of efficient innovators looks completely different: there are only five industrialised countries; the rest comes from Emerging Market and Developing Economies(EMDE) – China (2nd), Indonesia (4th), Vietnam (5th) and India (31st). Consumption itself will undergo a seminal transformation as people gradually find higher well-being – the ultimate goal of consumption – through communication.

Indeed, brain research and similar scientific work reveals that the wellbeing factor lasts longer and is deeper when doing something for others and with others than consuming in the established version of that word. The way ahead is to accommodate this momentous swing in consumption versus communication that discloses human behavioural patterns apparently different from past assumptions.

As long as policymakers see the economy through the prism of yesterday's parameters forged by the industrial age, but no longer applicable, the global economy will not recover.

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