

It's time to focus on growth

By William R. Rhodes



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Disenchantment with economic prospects has opened the door to populism and protectionism.



The most divisive US election in modern history and the uncertainty that it created across the world is over. Now, leaders should turn to the challenge of securing sustainable economic growth, writes William R. Rhodes.

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Major decisions have been set aside for too long by the governments of the US, the European Union, Japan and China. A host of economic policy actions are now essential and none is more important than countering a mounting trade protectionist threat.

World trade growth is no longer the engine of economic growth that it once was. From 1985 to 2007, trade growth was double global GDP growth; since 2012 it has been slowing; now it is running at an annual rate of 1.7% – the lowest level seen in many years.

Then, real GDP growth in the leading industrial countries for all of 2016 will be 2% at best. China's real growth rate, which was in the double-digits for many years, may be closer to 6%

than the 6.75% that has been officially announced for the last three quarters. Brazil and Russia are both in recession.

Unemployment in many countries continues to be high, and youth unemployment across the 19-nation Eurozone is still above 20%, with the rates in Greece and Spain at over 40%.

Serious risks on the economic front are unfolding against a background of political turbulence in many parts of the world. A middle-class revolt syndrome is evident in an increasing number of developed industrial countries. It is driven in part by perceptions of rising income inequality.

The disenchantment of so many people in so many developed countries with their economic condition and prospects has opened the door to a combination of populism, nationalism and protectionism. These powerful considerations currently manifest themselves most particularly with regard to immigration and to free trade.

An intense search for yield across financial markets that been propelled by the negative economic and political news combined with massive central bank liquidity creation and very low interest rates. Increasingly impudent risks are being taken. At some point in time the fundamentals will assert themselves and we could confront a new financial crisis.

The leaders of the government of the world's major economies need to coordinate economic policies now to counter the nationalism and protectionism, dampen the financial market excesses and build public confidence. Each government must take a series of domestic actions.

The list of essential actions include: The eurozone must finally replace a focus on austerity with a clear and determined pro-growth strategy, while completing work on the banking union, including both the finalisation of resolution regulations, as well as the introduction of deposit insurance, to ensure that the banks can play a full role in reviving investment.

The US Federal Reserve needs to address the continuing uncertainties about the course of interest rates; while Congress pushes for major infrastructure investment programs and tax reform measures that stimulate private investment. Then, the Japanese government needs to further promote the structural adjustment and deregulation programs that it has repeatedly postponed in the past.

And China's leaders need to take forceful action on the soaring levels of debt. The debt-to-GDP ratio is approaching 280%. State owned enterprises in steel, coal, shipbuilding and other sectors continue to relentlessly swallow up funds.

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The housing boom has long been in an unsustainable bubble. Municipal governments are borrowing heavily. Non-performing loans at banks are piling up, shadow banking is a major worry and the zombie companies have not been closed, as they need to be. Resolute actions are essential now given to turn the tide on an increasingly unsustainable situation.

Building public confidence through domestic economic policies by key governments must be enhanced through joint decisions – especially on trade. It must again become a key driver of global growth.

National leaders in most developed industrial countries have done a poor job over many years in explaining the benefits of fair trade. It is essential now that multilateral efforts be made to pursue trade negotiations that make sense: agreements that recognize legitimate workers' rights and that are accompanied by effective enforcement mechanisms.

The nationalists and protectionists must be confronted. Effective arguments need to be made to counter the widespread populist idea that free and fair trade and expanded globalization has enriched major international corporations and banks at the expense of the working people of the leading industrial countries.

One only had to listen to the trade positions that were advocated in the US election campaign, or those that secured Brexit, or the approaches promoted by the National Front in France, to feel bound to ask: are we at the end of the era of open trade and globalised economic prosperity?

The immediate challenge is to ensure that the answer is no. Growth in 2017 and beyond will only be secured if our basic globalised economic system is fortified.

We have been fortunate to benefit from an era that saw hundreds of millions of people across the world lifted out of absolute poverty, while the industrial developed economies attained levels of prosperity that were unimaginable 70 years ago. The general public needs to be reminded of the consequences of the beggar-thy-neighbour policies of the 1930s.

If leadership fails on this front the middle class revolt system will gather still greater momentum and the nationalists will gain in popularity posing dangers not only to economic and financial stability, but to international security as well.