Wither the global polity/economy?

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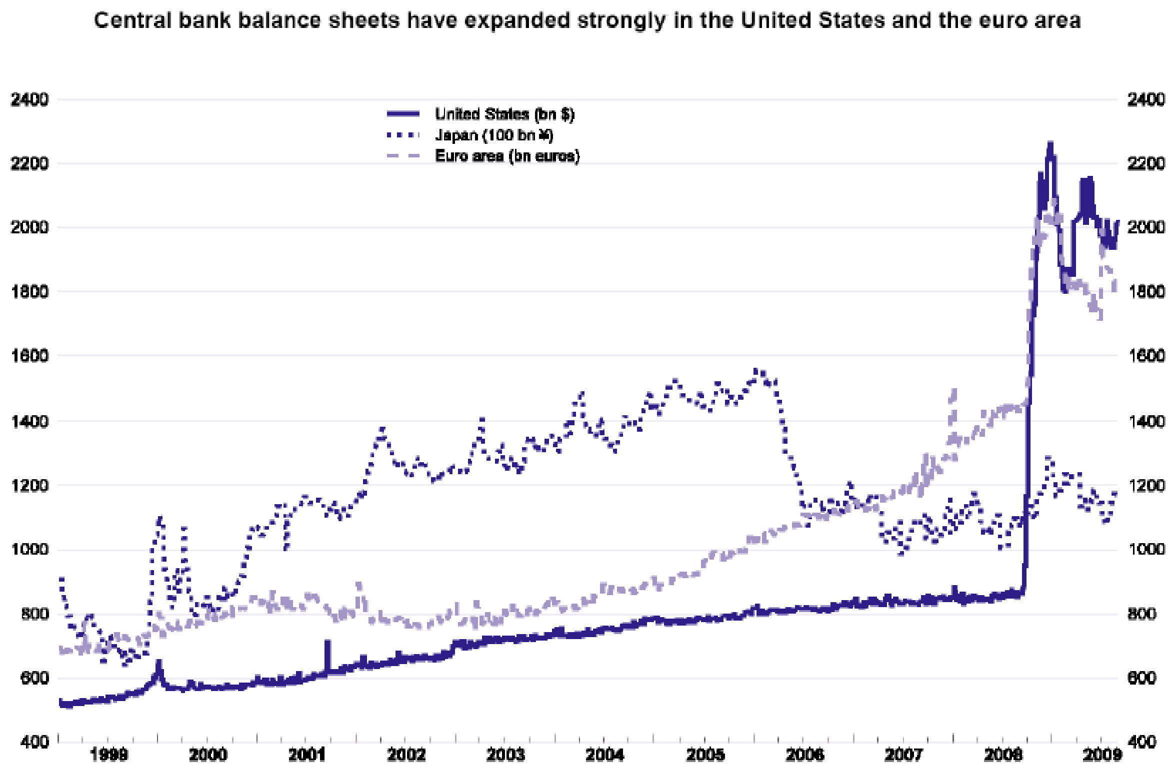
15 September 2009

For both pessimists and optimists, they appear to have been partially correct, till "now". Yet there is so much uncertainty ahead.

The reason is that history is interactive, up to a point. No mortals can say for sure.

What a beautiful world

The global economy is seemingly entering into a low-gear stabilizing situation, given the unprecedented monetary and fiscal rescue missions, as testified by the following two charts on the extraordinary behaviour of central banks and treasury departments in the advanced economies.



Source: www.oecd.org/OECDEconomicOulook , September 2009

Table A8. Major Advanced Economies: General Government Fiscal Balances and Debt[1]
(Percent of GDP)

	Average 1993–2002	2003	2004	2005	2006	2007	2008	2009	2010	2014
Major advanced economies										
Actual balance	–2.7	–4.8	–4.2	–3.4	–2.4	–2.3	–4.6	–10.4	–8.7	–4.6
Output gap[2]	0.2	–0.4	0.3	0.3	0.8	0.9	–0.2	–5.1	–6.1	–1.0
Structural balance[2]	–2.5	–3.5	–3.1	–2.6	–2.1	–1.8	–3.4	–5.1	–5.3	–3.2
United States										
Actual balance	–1.6	–4.8	–4.4	–3.3	–2.2	–2.9	–6.1	–13.6	–9.7	–4.7
Output gap[2]	0.7	0.3	1.2	1.4	1.6	1.2	0.2	–4.1	–5.5	0.0
Structural balance[2]	–1.3	–2.9	–2.5	–1.9	–1.6	–1.6	–3.7	–6.0	–6.5	–3.4
Net debt	46.2	41.5	43.0	43.4	42.5	43.2	49.9	61.7	70.4	83.4
Gross debt	64.9	61.2	62.2	62.5	61.9	63.1	70.5	87.0	97.5	106.7
Euro area										
Actual balance	–2.9	–3.0	–2.9	–2.5	–1.3	–0.7	–1.8	–5.4	–6.1	–3.3
Output gap[2]	–0.1	–0.7	–0.5	–0.6	0.6	1.4	0.7	–4.3	–5.4	–2.2
Structural balance[2]	–2.8	–3.0	–2.8	–2.6	–1.9	–1.6	–2.1	–3.0	–2.9	–1.9
Net debt	59.2	59.5	60.0	60.3	58.3	52.2	54.1	62.2	68.0	74.9
Gross debt	68.6	68.7	69.0	69.6	67.9	65.8	69.1	78.9	85.0	91.4

Source: IMF World Economic Outlook, April 2009

So at least the immediate financial crisis seems to have been held in check. Given the amounts of liquidity released, indeed, stock markets and property markets in noted areas have rebounded (very) handsomely, and producing uneven real-economy effects.

What could one have expected in a haphazard historical juncture like this?

The fundamental imbalances again

I have been a pessimist for a long time, predicting long waves in the downward direction since the 1980s. In any case, I was kind of surprised by the timing and ferocity of the financial tsunami in 2008.

In a recent piece (http://www.sktsang.com/RF/M_D_B.htm), I supposed that a global post-crisis equilibrium would not be achieved until:

(1) The dominant superpower, i.e. the US, corrects its lamentable lack of savings, over-consumption, over-investment and hegemonic projection of international power in the hard way.

(2) The rising contending powers, including China and the other three members of BRIC, plus Japan and South Korea, find ways to live with a bruised US.

(3) The international financial architecture is revamped to root out malpractices and to enforce effective regulation.

(4) The eternal identity (which cannot be wrong accounting-wise)

"net saving ≡ fiscal deficit + external surplus" is reshuffled among surplus and deficit nations in a meaningful sense so as to redress pathetic global symbioses (despite the debate about savings glut versus shortfall, i.e. who is responsible for generating the imbalance on the left hand side of the identity in the first place).

The imbalances were in my view the factors which caused the crisis, although the financial versions of the collapse (2008) could hardly be predictable to any "precise" degree.

After all these downs and ups (and downs?), I think that those global equilibrium conditions that I sketched out are still relevant. Whether they are within reach any time soon is a question I am struggling with.

Progress so far

Governments over the world have addressed to various extents problem (3), apparently and simply for public survival during a tsunami. Those policies and measures have included quantitative easing, deposit guarantees, partial nationalization of toxic asset etc.

They have been forced upon the authorities of many countries and regions as the leading economies took the initiatives. Smaller powers have had little choices.

So here it is: a temporary financial equilibrium, with some real effects. The most excited parties, ironically, are those in the beleaguered financial and property sectors.

Is this interim result surprising? Hardly.

In any social or economic disaster, the badly shaken authorities would want to save what is worthy of the remaining ruling elite first, assuming that the top leaders could keep their own jobs.

If they could do so, how should they manage the situation? Firing every one in the un-corrupted members in the largely discredited elite – and starting from afresh? Or using the time-honoured exit strategy: getting rid of the worst but keeping the most capable? Although sometimes the most capable might be amongst be the worst.

The alterative might a revolt or revolution.

To be fair, problem (4) has also been redressed in a way. Exports of emerging economies have been hard hit. And there is all this discussion about them turning their growth to be more domestic demand driven, rather than externally dependent.

The remaining problems and new complications

On the whole, my subjective assessment of the progress is that the four fundamental imbalances have been far from resolved. The tasks that remain are:

90% of (1);
80% of (2);
60% of (3); and
75% of (4).

Moreover, the present fragile stabilization may reduce the motivation of the international community to further address them in a serious manner.

The extraordinarily loose monetary and fiscal policies, which have produced a flood of global liquidity, would also be a big headache for any “exit strategy”. New complications could arise in the asset markets; and another storm might come!