The Washington Post

Top analysts on the global economic outlook

By Topic A
Sunday, November 14, 2010;

After the G-20 meeting in Seoul, The Post asked economists to assess the outlook for the global economy. Below are responses from Mark Zandi, Douglas Holtz-Eakin, Eswar Prasad, C. Fred Bergsten and Karen Johnson.

MARK ZANDI

Chief economist at Moody's Economy.com

The global economy's prospects hinge on one key factor: policymakers' ability to avoid protectionism. If they are able to avoid erecting barriers to trade, investment and immigration, then prospects will be bright. If not, the fragile global recovery will come undone.

So far, so good. Global policymakers' arguably most important achievement during the Great Recession has been avoiding the kinds of trade and currency wars that contributed to the Great Depression. This is even more laudable given the intensifying political pressures fueled by near double-digit global unemployment.

The script, however, is still being written, as is clear from the acrimony at the G-20 summit in South Korea. The United States has come under harsh criticism for the Federal Reserve's resumption of quantitative easing, a byproduct of which will be a weaker dollar. Officials overseas are concerned that U.S. policy aims to significantly debase the dollar, which will result in runaway inflation and a weaker economy.

These worries are misplaced, but that is beside the point. It is vital for global policymakers to keep meeting and talking through their disagreements; they must not let let them spill over into counterproductive action. I expect them to succeed and for the global economy to gain traction.

DOUGLAS HOLTZ-EAKIN

Former director of the Congressional Budget Office; senior economic adviser to John McCain's presidential campaign

The global economy is a choppy sea. After the failure of the stimulus, the Obama administration has turned to a new export strategy to generate growth. Unfortunately, export-led growth is already the policy of choice for China, Japan, Germany, Brazil and a host of other key economies. It is inconsistent for every country to simultaneously count on net exports to generate growth.

The result is rising international tension. The United States faces tremendous pressure from Germany, Brazil and others regarding the Fed's recent decisions to resume quantitative easing ("QEII"). The Fed (and President

Obama, who curiously decided to violate the "Fed is independent" rule and weigh in on the topic) sees this as domestic monetary policy, but to the world it is a competitive devaluation of the dollar. The administration's approach has been to set quantitative targets for external balances - essentially "quotas" for shares of the global economic pie. It would never work and has been rejected.

The key for the United States is stronger domestic pro-growth policies and spending controls that reduce the need to borrow abroad. Absent this, the future will be even more contentious and littered with more lawsuits brought before the World Trade Organization, greater trade tariffs and/or subsidies, and more taxes on foreign investment from our trade partners.

ESWAR PRASAD

Professor at Cornell University; senior fellow at the Brookings Institution; co-author of the forthcoming book, "Emerging Markets: Resilience and Growth Amid Global Turmoil"

The global economic recovery is proceeding on twin tracks. Advanced economies face a tepid and uncertain recovery while emerging markets experience red-hot growth and try to cope with the risks of asset market bubbles and rising inflation. G-20 leaders need to forcefully address the complications created by this bifurcation of growth prospects and required policies. Otherwise, we are in for a train wreck.

Advanced economies are resorting to increasingly desperate measures to secure their recoveries. Rising levels of public debt and aggressive monetary easing, especially in this country, are generating enormous longer-term risks both domestically and globally.

Emerging-market economies have rebounded sharply from growth slowdowns and now face an altogether different set of short-term risks. These economies need tighter rather than more stimulative policies. This is complicated by the fact that emerging markets are facing a tidal wave of capital inflows, thanks in part to cheap money in advanced economies. These inflows are unlikely to ease anytime soon, given their strong growth prospects.

The recovery in advanced economies still needs support from macro policies, but their leaders should develop credible medium-term plans for withdrawing monetary stimulus and cutting public debt. Emerging markets should allow some currency appreciation and use incoming capital to broaden their financial markets rather than resort to futile measures such as capital controls.

The optimism of the summer is giving way to the realization that a balanced global economic recovery is going to be a long, hard slog. The G-20 objective of robust, balanced and sustainable growth remains elusive for now.

C. FRED BERGSTEN

Director of the Peterson Institute for International Economics; assistant secretary of the Treasury for international affairs from 1977 to 1981; editor of the Peterson Institute's Long-Term International Economic Position of the United States

The outlook for the global economy is surprisingly strong despite the failure of the G-20 at Seoul to do much to support it. World growth should average 4.5 percent this year and in 2011.

This rosy aggregate, however, masks very sharp differences around the world. The emerging and developing countries are expanding at better than 6 percent annually. The high-income developed countries will come in under 3 percent.

East Asia is growing three to four times as fast as Europe and Japan. The United States is in the middle. The developing countries as a whole are expanding twice as rapidly as the rich. The emerging nations fortunately account for half of the global total; they can thus carry the world with them, and their share is rising steadily every year. They made up half of the G-20 that met in Seoul, reflecting the enormous shift in global economic power that has occurred over the past three decades and is likely to become even more pronounced in the years ahead.

The major risk to this reasonably optimistic outlook is premature policy tightening in the high-income countries. The Federal Reserve has alleviated much of that concern in the United States with its quantitative easing of monetary policy, but Germany is tightening its budgets despite the total absence of pressure from the financial markets. The other big risk is that the G-20's failure to resolve the large and growing current account imbalances and exchange rate misalignments, especially between China and the rest of the world, could trigger trade and currency restrictions that will stifle growth everywhere.

KAREN JOHNSON

Director of the Federal Reserve's Division of International Finance from 1998 to 2007

As the leaders of the G-20 countries met, global economic growth remained sub-par and uneven, as is likely to continue next year. The "emerging" countries are recording solid growth of real gross domestic product, but most advanced industrial countries are still growing too slowly to reduce unemployment rates. The United States has a troubled housing sector, a depressed commercial real estate market and a financial system reluctant to provide credit to many. Those factors, combined with an end to positive shifts in firms' inventory holdings and an end to the stimulus package, produce low, positive growth that cannot improve the labor market or lift household confidence.

With the global recovery fragile, officials reject measures that might weaken their countries' immediate prospects; hence, the quarrels over currency values and fears of trade imbalances that raise serious risks of heightened protectionism or a future financial crisis triggered by unwanted accumulated currency holdings. Right now, we are seeing global gross capital flows in response to interest rate differentials that may be the seeds of a future crisis. Underneath it all is the reality that, in many countries (ours is a good example) and in global terms, we have neglected long-term problems whose remedies are partially at odds with the expansionary policies needed to address the short-term cyclical slowdown in the global economy. To manage this conflict, we need to design fiscal and regulatory policies that unfold over time, but in which the commitment to future action is firm. And we need to use monetary policy to guide the macroeconomic outcome all along the way.

You must be logged in to leave a comment. Login | Register

Submit

Comments that include profanity or personal attacks or other inappropriate comments or material will be removed from the site. Additionally, entries that are unsigned or contain "signatures" by someone other than the actual author will be removed. Finally, we will take steps to block users who violate any of our posting standards, terms of use or privacy policies or any other policies governing this site. Please review the full rules governing commentaries and discussions. You are fully responsible for the content that you post.