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ECONOMIC VIEWPOINT

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Growth, Growth, My Kingdom for some Growth

Here we are, four years after the onset of the recession and almost all countries are struggling to restore growth. Looking at the major economies, a striking lack of strategy is apparent in Europe, the United States and Japan. The reliance on emerging-market economies, led by China and including Brazil and India, was a palliative in 2009 and 2010, but growth in those countries has slowed as well due to a variety of factors, some national and some global. The bottom line is that economic growth is proving harder to resuscitate than anyone thought.

Of course there are those who say that growth is not everything, namely, that distribution matters, sustainability matters and happiness matters. True enough, but without growth, jobs and incomes, the question of who benefits is a moot point. Without growth, it is harder to make the environmental case; and without growth, relative measures of welfare are less meaningful. Hence, we face the overriding necessity of restoring momentum to the global growth machine. And by all accounts, we are stuck. What's to be done?

For Europe, this means swallowing any remaining semblance of domestic autonomy and moving toward a complete fiscal and monetary union. The alternative is too wrenching. The notion that Greece can play by different fiscal rules or that Spain can avoid bank failures only delays this inevitable outcome and depresses growth prospects. Standards of living have to be aligned with productivity. Some in Europe will be paid more, others less. But all banks will need to be supervised on a supranational level, and all countries will have to generate taxes and meet fiscal standards. Eurobonds will need to accompany the euro! Until this political decision is reached, growth will continue to stagnate.

In the United States, destructive politics that prevent the adoption of sensible policies to restore growth have to be stopped. It may take continued high unemployment, threats to the credibility of the dollar, cuts in basic services and entitlements, and a further deterioration of competitiveness for the U.S. political realm to understand the gravity of the situation. The idea that one can stimulate economic growth while still improving the long-run fiscal situation is not an alien one—it requires investments in the right things. Infrastructure is first, and a national infrastructure bank is sorely overdue. Education that is affordable, effective and produces the trained labor force for the future is a smart investment. Reforms to entitlements and to unbearable health costs are needed. But with interest rates at historic lows, there are numerous productive investments that will generate economic growth and tax revenue, if the system is fair and budget expenditures (i.e., loopholes) are remedied.

Among emerging markets, Brazil—with its lagging growth but great potential—is an interesting case. As an example to study, it is more instructive than China, which can by fiat enact necessary economic policies to ease the inevitable decline in its astronomical growth rate, or Japan, which cannot overcome its own demographics. Brazil's democracy and social welfare state have done well in spreading economic benefits. However, its wage increases have exceeded productivity, its real borrowing costs are too high, and its industries are given the wrong signals. Government policy currently aims at increasing protection and weakening the exchange rate. This mix, in the absence of productivity gains and the establishment of globally competitive manufacturing, will be costly and futile. Its commodities will continue to do well, but it will be a decade or more before offshore oil is developed—and oil doesn't create enough jobs or provide a new industrial base for the country. Growth may come, but it will be of the wrong kind—natural resource-based without industrial linkages. Brazil needs to be more "East Asian" and create world-class, highly competitive industries; it needs to use its universities for innovation, create venture capital markets and compete globally.

"It's politics stupid" is the oft-used phrase to explain poor economic policy decisions. Politics is an impediment, but so too is a dearth of new ideas about what can drive economic growth and how that growth, if properly harnessed, can help the politics. ■

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