A Global Growth Bargain

The West's only hope.

BY GORDON BROWN

U.S. President Barack Obama caught the imagination of the world when he talked recently of a new "Sputnik moment." He outlined a bold plan for improving education, infrastructure, and technology, and vividly compared the resolve required to put a man on the moon to the determination needed to restore growth to the U.S. economy.

Obama is right to say that the West faces not only great challenges, but also great opportunities. In the last decade, the global economy was transformed by one billion Asian workers entering the ranks of industrial producers. In 2011, for the first time in two centuries, Europe and America face being out-produced, out-exported, and out-invested by China and the rest of the world.

Yet Asia's growth also gives the West unprecedented economic hope. In this decade, the world will be transformed yet again by the rise of the Asian consumer. By 2020, Asia's domestic markets will be twice the size of America's. The world's middle class will have swelled from one billion consumers to three billion.

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THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
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The opportunities for growth in Europe and the United States from this additional global demand are enormous. The countries and companies that will flourish in Asia's new markets will be those that can provide the technology-driven, custom-built, high-value-added goods and services needed to serve Asia's two billion consumers.

But neither Europe nor the United States is in a strong enough position to take best advantage of these new markets. The West must again begin to out-invent, out-innovate, and out-skill the rest of the world if it is to seize the opportunities that Asia presents. Indeed, unless the West significantly expands its capital investment in engineering, science, and new technologies, it will be marginalized by countries whose governments back their innovators with hard cash.

Obama's investment plan could be the foundation stone for a formal global agreement that delivers higher levels of growth to all corners of the world and creates millions of new jobs. Under such an agreement, Europe would join the United States in raising levels of investment— complementing America's "moonshot" initiative with a program of structural reform aimed at building a digital, green, energy-efficient, and competitive economy—while China would play its part by increasing its consumption. I believe that such an agreement could boost the world economy by around 3 percent by 2014—and lift one hundred million people out of poverty.

I presented this plan when I chaired the G-20 in London in 2009. I wanted East and West to commit to a formal strategy to deliver more enduring results than those promised by the rescue packages that we were putting together at the time. Our attention was focused on preventing recession from turning into depression. I argued that this was also the moment to pioneer a more lasting framework of growth.

In the end, no agreement was possible on a shared growth objective, and there has not yet been enough political will for the coordinated action to achieve it. Since then, Europe and America have grown well below their capacity (despite huge unmet demand throughout the world) and unemployment has climbed to around 10 percent on both continents (with youth unemployment reaching an alarming 20 percent).

The global growth agreement that evaded us in 2009 remains the unfinished work of the G-20. Front-loaded public investment could be funded through an enhanced European Investment Bank. China has already laid the foundation for playing its part: its policy of *xiaokang* (reducing poverty and expanding the middle class) should create a market for billions of dollars' worth of Western goods and services.

The West should propose that if China's consumption increases by 2–4 percentage points of its GDP over the next three years (entirely possible as it improves its social safety net, cuts taxes, and puts homeownership within reach of ordinary citizens), America and Europe will expand their public investment by similar amounts. If other Asian countries do likewise, and agree to create a level playing field for exporters, we could create around fifty million additional jobs.

Of course, in the West, an investment plan invites criticism from those who prefer that we do nothing but talk about growth strategies. Indeed, critics argue that raising public investment conflicts with the drive to reduce deficits, and warn of higher interest rates on the back of further spending.

Europe would join the United States in raising levels of investment.

But critics are wrong about the impact on the deficit of focused investment. A recent study by the International Monetary Fund produced unequivocal evidence that we can actually maintain deficit-reduction plans while benefiting from the additional capital investment that the U.S. and European economies need.

My extrapolation of the IMF model shows that Western countries can boost their long-term GDP growth significantly by increasing their levels of capital investment over a three-year period. An annual stimulus equivalent to just 0.3 percent of GDP yields a return in the United States of 0.8 percent in economic growth at its peak in 2013, and 0.4 percent in Europe.

This approach, which secures growth and cuts unemployment without raising the deficit, is needed to energize the private sector and mobilize some of the capital that has accumulated on corporate balance sheets in recent years. It also underscores the importance of the G-20 and the IMF in seeking global consensus now.

The West is well placed to play its part in global renewal. Its extraordinary workforces produce world-class goods and services. But the West's workforce must not be condemned to policies that willfully produce a decade of slow growth and low employment. That would be a human tragedy, not just an economic disaster. ◆