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PRESS RELEASE

Rebalancing the global economy

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At the end of 2008 the financial crisis escalated, pushing most advanced countries into deep recession. The emerging economies also suffered because capital flows dried up and international trade collapsed. This caused global GDP to contract for the first time in decades, in contrast to the often very vigorous economic growth in preceding years. Massive fiscal recovery plans and an extremely accommodating monetary policy set the stage for a gradual recovery of the world economy. However, it remains highly uncertain when – or even whether – growth can return to its pre-crisis level, especially as that dynamism was largely based on macroeconomic distortions in many countries. Some western economies featured a rapid expansion of credit, asset price bubbles and exceptionally low savings ratios; in various emerging countries, there was distortion of relative prices, financial markets were under-developed and savings ratios were extremely high. The expanding current account surpluses and deficits on the balance of payments were the most obvious manifestation of these distortions. For a number of years, many observers had warned that this situation was unsustainable. There is also a general consensus that these imbalances contributed to the emergence of the financial crisis.

The recent shifts in global demand have so far corrected part of the external imbalance between countries. However, a sustainable recovery of the world economy requires a more balanced growth of global demand, which implies that countries with substantial external and internal imbalances need to adopt a fundamental change of course by eliminating the internal distortions in their growth pattern. In a globalised world, that requires an international platform capable of offering a resolutely coordinated policy solution in which all deficit and surplus economies accept their responsibility. At the Pittsburgh summit in September 2009, in the “Framework for strong, sustainable, and balanced growth”, the G20 leaders agreed that deficit countries should support private savings and strive towards fiscal consolidation. They will not only need to modify their spending patterns but will also have to transfer their focus to the export sector. The corollary is that these countries, and more particularly the United States, will cease to take on the role of world spender of last resort for many years to come. Therefore the surplus countries are called upon to offset the resulting shortfall in demand. Those countries need to reduce their dependence on exports and tap domestic sources of growth, which implies that they pursue a policy which curbs private saving and encourages a shift from export-oriented sectors in favour of service branches.

Although a number of countries have already adopted a range of policy measures which are a move in the right direction, restoring the balance of global demand remains a major challenge, not least on account of the difficult to implement but no less essential structural reforms, or the time required to push those reforms through. It will be no easy task to restore the macroeconomic equilibrium, achieve a broad consensus and create the conditions for strong, sustainable and balanced growth, especially for countries where – in the aftermath of the crisis – the government has accumulated a large additional public debt, and for countries with product and labour market rigidities which need to restore their competitiveness. The movement towards a new global balance risks to become a protracted process, with the possibility of a worldwide growth slowdown in the meantime.

This article establishes the link between the internal and external imbalances which were built up in past decades. It then examines what the Framework actually implies for the reorientation of policy in the US, China and the euro area, and offers a provisional assessment of the measures adopted or planned.

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