

Global Growth?

There was a cloud hanging over the G20 Summit held in Hangzhou earlier this month and it wasn't the pollution normally associated with most Chinese cities—it was the slowing Global Growth. The Group of 20 held their inaugural leaders' summit in Washington DC on November 15, 2008 and took center stage in global leadership in the wake of the 2008 financial crisis. The G20 amassed the collective powers of both developed and emerging nations to counter the critical challenges triggered by the sub-prime mortgage meltdown. Now eight years later, most pundits agree their unified action was the key to averting world financial collapse.

The first G20 leaders Summit brought together 90% of the planet's economic power to defeat a common foe, global recession. The Great Recession's near cataclysmic collapse of the world's financial systems provided the catalyst for the surprisingly successful integration of the emerging economies on the international economic stage. The success and cooperation of that first Summit bonded those 20 countries together and laid the foundation for future cooperation among all nations committed to an open global economy and rejecting protectionism.



Here at home, we went through the longest and worst economic recession since the Great Depression. Even though the G20's unified action averted global collapse, the world's economic recovery has been fragile and uneven. Several countries have grown consistently, particularly the United States and China, while others have fallen back into recession. The central banks around the world have unleashed unprecedented financial stimulus to spur economic growth. These experimental tools have reached their limits, but have not generated sustainable economic growth.

The International Monetary Fund (IMF) signaled another downgrade to global growth just prior to the G20 Summit. In the Sept. 1st Wall Street Journal, the IMF admonished the G20 world leaders declaring, "...failure of policy makers to fix deep-rooted problems in the world's largest economies has pitched the globe into the worst slow-growth rut in nearly three decades". But IMF chief Christine Lagarde, in her Northwestern University speech, offered hope, "...using monetary, fiscal and structural policies in concert—within countries, across

them and consistent over time—stronger, better, and more inclusive growth is possible."

Because major central banks have pushed monetary policy into the stratosphere with several rounds of quantitative easing and zero, even negative interest rates, the IMF called on the G20 governments to take the baton to revive dismal trade and investment and reverse the tide of protectionism. They warned that without forceful action, the world could suffer dismal growth for years to come.

Governmental fiscal policies of the major economies may have hit their stride to become more stimulative due to political pressures in favor of infrastructure spending and tax cuts. Historically low interest rates have held down governmental interest costs and therefore national deficits. Most developed countries will increase governmental spending in 2016 for the first time since 2009.

The United States is leading the way in the global economic recovery. The three components of our economic growth: consumption, our government spending, and investment may all be finally working in concert. Consumer sentiment is above average for economic expansions and business investment finally turned positive in the 2nd

quarter. Both political candidates are unveiling a raft of spending programs and tax cuts fueling government spending. Steady job growth, low gasoline prices, and low inflation fuel confidence in our future. Because of these promising growth conditions, Macroeconomic Advisors raised its third-quarter GDP forecast to 3.1%.

Other developed countries are not so lucky. Europe is fighting recession, weak growth in Japan lingers and Britain's uncertain future alone will be a drag on world growth. Although the Hangzhou G20 Summit couldn't achieve a coordinated fiscal stimulus to combat this slowing global growth, it did call for governments to do more to support growth, and maybe more importantly, to strive to bring about fundamental change and address the pressing problems of terrorism, global warming and poverty.