

Growth After the Storm?: A Longer Term Perspective on the Global Economy

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Global Imbalances

For the world to have a desirable structure of current accounts, I would like to suggest that rather than trying to lower the surplus drastically, which could have a significantly negative impact on its growth, China could redirect a significant portion of its surplus savings towards developing countries, allowing them as a group to run somewhat higher current account deficits and finance somewhat more investment. A key feature of such a scenario is... the larger net capital inflow into the developing countries. As policy frameworks in these countries have improved, it is desirable and should be natural for them to be net capital importers rather than run balanced or surplus current accounts...

Internal Imbalances

One of the most dramatic and unsettling economic statistics in recent times is that a full two-thirds of all economic gains in the US during the rapid pre-crisis growth years accrued to only 1 percent of the population. In China, the share of labor income in GDP has declined to only 40 percent! It may well be that it is income distribution-related *internal* imbalances that may be a key short- to medium-term demand-side threat to sustained rapid growth.

Conclusion

[T]here is probably the potential for very rapid growth in the world economy, by historical standards, over the coming decade, because of strong supply-side factors. Whether this growth can be realized does, however, depend on demand-side management both at the national level, and through improved global macroeconomic policy coordination.