

DISCUSSIONS

The Economic Comeback of the West

Mihai PASCU

mihai.pascu@yahoo.com

A Year Dotted with Many Public Events

The Economist magazine dedicates an entire issue to the global developments of the following year, 2014. The title actually reads „The World in 2014”. The attempt to assess what will happen in the year that is to begin is indeed remarkable. All the more given the importance of this year. It is the year when the crisis will, apparently, come to an end. Or, to put it differently, all the developed countries will resume their growth. The developed countries will have different rates, but they will still experience growth. 2014 is part of a turbulent decade, a decade of readjustments. Unlike the previous decade – which distinguished itself by impressive rates of growth of the emerging world and established this world as an undeniable political and sociological reality. And unlike the third decade which will witness, again, the stabilization of the world's economic hierarchy with China in the leading position.

What can we highlighten as major events of 2014? It depends on the perspective. If we refer to events with great echo, followed by millions of people, then we could mention the *Winter Olympics* to be held in Russia, at Sochi. Or the *World Cup* to be held in Brazil, the host hoping to win the trophy for the sixth time.

If we embrace the perspective of historical anniversaries, then we have at least two events worth mentioning. In the first place, next year we commemorate *100 years from the outbreak of the First World War*. This event put its stamp on the twentieth century, not only because it was the First World War, but because it also reshaped the map of Europe. All the nation-states that emerged in Central and Eastern Europe - Poland, Czechoslovakia, Yugoslavia and Ro-

mania - owe their existence to the final outcome of the First World War, to the prevailing idea at that time regarding the creation of buffer states that should come between Russia and Germany. There will be many meanings attached to this centenary. Firstly, it finds Germany in a prosperous stage of its evolution. Germany is by far Europe's leading power. Being Europe's strongest country, Germany has at its disposal, as one analyst noted, "an empire". We speak of the European Union, which currently depends on German finances. How will things evolve? Experts are cautious in making forecasts.

The formula launched by Raymond Aron is memorable. Germany had the opportunity to transform *the 20th century into a German century* (apud Ash, 2013). Germany had a strong economy, an impressive population growth and, above all, it dominated through its cultural power (what we now call soft power, the power of attraction). We all know what followed. Anyway, the centenary will certainly trigger analyses and debates regarding Germany's current policy, its perspective on the evolution of Europe. The historic event will be regarded as an opportunity to discuss current trends, to issue some warnings, to partially rethink the European policy.

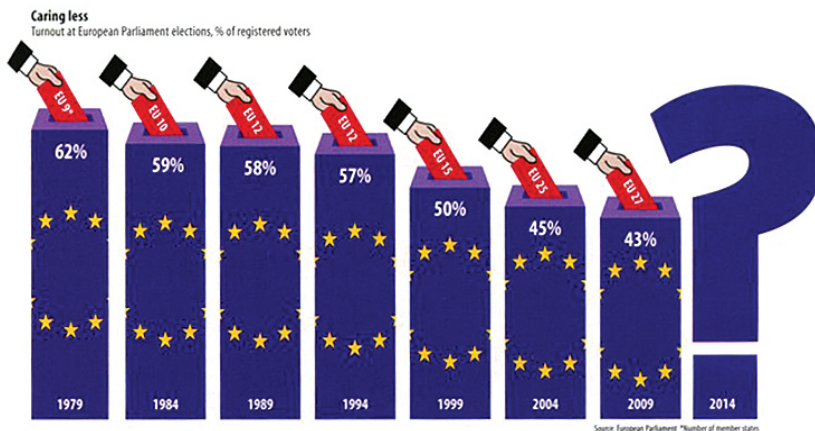
The second historic event - less important of course - is that next year will mark 200 years from the first exile of Napoleon. The emperor's return was followed by the Battle of Waterloo. Why is this moment important? It established the power of Great Britain, which became the dominant power in Europe and in the entire world throughout the 19th century. Then, since the Napoleonic wars, France has never really recovered. Yes, it preserved its undisputed cultural power, but the economic and political power of France has never been the same as in the age of Louis XIV or of Napoleon.

A Year of Political Shocks

There will be major political events next year. It is quite possible that they come as real shocks, due to their inherent importance and to the phenomena that they trigger. The most important appears to be *the European elections*. So far, these elections went virtually unnoticed. Now they will mark a major change, even a turning point (Franklin, 2013). Why? Because Europe has mainly become *euroseptic*. The "political fruits" of the crisis begin to show. *The confidence of the public opinion diminished more than the economic growth*. Trust in the Union plummeted. Mainly in countries seriously affected by the crisis, but also in large countries that hold special continental importance. What will the

European elections reveal from this point of view? In any case, it is difficult to accept the idea that a solid group of Eurosceptics will not enter the European Parliament. How large it will be, how significant, we will see in a few months. If you were to consider the current polls, the predominant group in the European Parliament should be that of the Eurosceptics. This poses from the very beginning, in dramatic terms, the question of the future of the European construction. The European elections are around the corner. We cannot witness significant changes of the public opinion. Even in the context of spectacular measures and developments, which, obviously, cannot take place.

Here we came across another aspect worth mentioning. In affluent countries, voter turnout decreased visibly, from one year to the other as we can see in the figure below.



*Figure 1. Caring less: Turnout at the European Parliament Elections (% of registered voters).
Source: European Parliament.*

In these circumstances, the theorists of democracy have launched a new interpretation: yes, it is true that people do not go to the polls as they used to and they do not even participate in the public debate anymore, but democracy *works for them*. They live better lives, the evolution of the standard of living has been positive, even encouraging. The crisis has shattered this theory. It has become clear that democratic structures no longer work for ordinary citizens. It will be argued that it has been a time of crisis. Yes, but not everyone has suffered, the distribution of costs has been very uneven. The inequality highlighted by the crisis and the developments preceding it, the excessive polarization of the developed capitalist society has created a problem extremely

difficult to understand, to justify, to accept. So, *restoring confidence* in democracy becomes a pressing issue with broader implications. If this confidence is maintained at low levels, an ideal ground for the flourishing of *populism and even extremism* is created (Mair, 2013, p.2).

Populist, ant-immigration and extremist parties - often united in their hatred of the European Union - will alarmingly grow in number. The problem we are facing now is how strong will they become? Estimates show that these political forces stand a chance of collecting a fifth or even a third of the votes. The Freedom Party led by Geert Wilders from the Netherlands, the National Front led by Marine Le Pen in France and the Independence Party led by Nigel Farage from the UK are credited with a real chance to get a considerable share of the votes. Even if they are less conspicuous in the political arena of the respective countries, the Finns Party and the Alternative for Germany are gaining more audience. Even if these parties will not have many seats in the European Parliament, they will use the European forums as a very powerful megaphone to broadcast their vision. So, apart from the practical results of the European elections in May, any analysis should note the *indirect* influence the Eurosceptics will be able to exert from now on. It will be based on two important aspects: the new positions earned by Eurosceptics in the power structure of the Union (which implies an action of erosion from the inside) and the syncope, even the counter-performances in the functioning of the Union. These will be presented and subjected to criticism more intensely compelling citizens' approval.

There are many important elections in 2014. Among them we could mention the referendum to be held in September on the status of Scotland: will Sctland be independent or will it continue to be part of Great Britain? In the first case, Britain will have much to suffer. In one of the last issues of *The Economist*, the title on the first page read: Will Great Britain become Little Britain? Let us not forget that Scotland is not just a "country", it is a very prolific spiritual area. It is the homeland of Adam Smith, Alexander Hamilton, prominent figures in the gallery of British values. Moreover, another very important aspect calls for our attention. It could be deemed as more important than the possible separation of Scotland from Great Britain. It is the shock wave that the event will generate. Catalonia is also waiting for such an event. So is Quebec in Canada. But we remain on European soil, the possible separation of Scotland will be a very important signal for a certain kind of division in different countries. From this point of view, we can say that – if it is confirmed - this trend will be situated at the opposite pole from the one installed at the end of

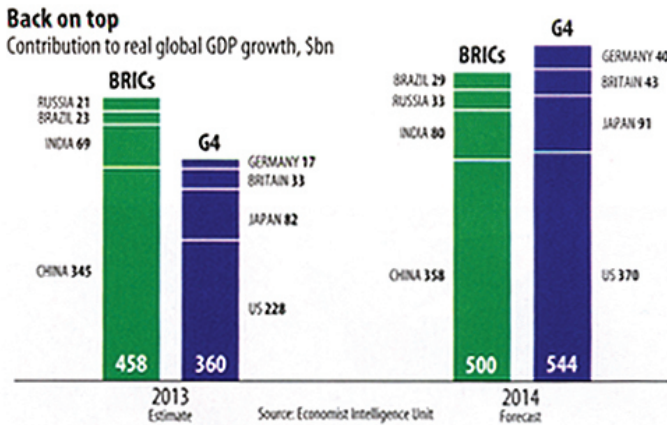
the First World War. Then the states coalesced, constituting powerful units, even if they were also functioning as "buffer states". The current trend seems to be one of disaggregation. It could trigger a process of actual congregation at European level and we do not know who benefits from this. Perhaps only large states, such as Germany and France, which have a remarkable internal cohesion. At least for now. When a trend is making its way, it does not do so for a year or two. It comes to stay and there is no saying who it will affect next. However, Europe as a whole will suffer.

Because we speak of important elections, with global impact, we have to mention the 2014 elections that will take place in India, the most numerous democracy of the world and in Indonesia, the most densely populated Muslim country in the world. The data provided by the public opinion polls in India indicate that Narendra Modi has a good chance of winning. He is „a controversial Hindu nationalist” who centers his speech on the idea of development, which is is very important for his country. The way in which the new leader will report himself to the legacy of the current Prime Minister of India, former finance minister and established technocrat, is very important. We only mention one thing: as long as India relied on services – this country having real performances in this sector – it recorded growth rates of 4-6 percent. When – probably under the influence of China – it developed the investment sector and stimulated industrial activity, the pace of development reached 6-8%. It depends on the development philosophy that will be adopted by Narendra Modi. The elctions in Indonesia are also important. This country is placed by many specialized assessments immediately after the BRIC countries. Rich in resources, with a large population and an important geostrategic position, Indonesia will play an increasingly important role on the political stage of Asia and the world.

Economic Shifts

It seems that the coming year will also be marked by a few economic shifts; since they are in an initial stage, they will outline some rearrangements and reconfigurations which are to be confirmed by subsequent developments. These evolutions are tightly related with the developments in the last decades (Dobrescu, 2013). The first shift refers to a kind of *revival of the West*, a recovery of the developed world after this crisis that lasted much longer than initially expected. We are talking about a more pronounced growth rate in a world that was faced with the economic earthquake of the last few years, the

crisis. America, Japan and even Europe, all will register economic growth. All of them, but especially America. According to experts, America will register a 2.5% growth rate next year. If this level is maintained, it will translate into true revival. However, there is a lively debate in the literature about what revival actually means in the post-crisis period. A rate of 1-2 percent represents a technical growth. It is important but not too significant, and it cannot possibly be considered a revival. True revival implies an increase of over 2.5%. If the U.S. achieves the above-mentioned growth rate, then it is on the verge of actual revival. Two more things should be added. We are referring to the superpower of the moment, important both per se and through its symbolic value. Such a growth rate proves that the world's first economic power, the U.S., has come out of the crisis, that it resumes its normal growth rates. This means that America is on a normal curve, that the crisis has been largely overcome. However, we have stressed the fact that this growth rate has to be actually achieved. A growth rate of over two percent was announced last year, but the achieved rate was under two percent. This still translates into „technical recovery”.



According to the graphic above, „In 2014 America will add more to the global growth than China (at the exchange rate of the market) and Japan will add more than India” (Abruzzese, 2013) states *The Economist*. This means, in fact, a comeback of the West, a reinforcement of its positions at a global scale. In order to regain its status as a symbol of developed capitalism, America created about 4 million jobs in the past two years and is to create other two million jobs in 2014. Interests shall be kept to a minimum until unemployment dwindles considerably. In Europe, public deficits will decrease significantly and unit labor costs were reduced, leading to increased competitiveness. Cur-

rent account deficits - once of frightening proportions - in Italy, Spain and Portugal shrank visibly.

This is a positive development. However, we remain cautious because lately, almost every time, when optimistic developments were predicted, they were eventually reconsidered. The fact is that the developed world will grow in the most convincing manner since the crisis broke. The U.S. will grow at a rate of 2.5 percent, Japan at a rate of 2% and the euro area at a rate of 1.2%. So we have growth across the board. This is a very encouraging fact and a clear sign that things are returning to normal. For the specific situation of Romania and the predictions related with the Euro area see Anghel and Dinu (2013).

According to specialists, a second shock is represented by the developments that will be recorded in the activity of central banks. Especially in the activity of the U.S. Federal Reserve. A new president will take office next year- Janet Yellen. The policy of the Federal Reserve will certainly change too. This change will be determined not only by the new team, but mostly by the transformations undergone by the economy. What has been called quantitative easing, being in fact money printing, will be reduced, if not stopped entirely. From this point of view, 2014 will be extremely important. How long will the interest rates be kept low in order to stimulate economic activity and investments, when will the interest be raised and how firm will the actions be so as not to trigger inflationary processes? These are specialized issues, less accessible to the general public. But if a man is ill, the recovery period should be respected. However, lying in bed will do him no good. He has to exercise, to get used to the hardships of daily activities. Moreover, the total cost of convalescence is equally important. If, in order to extend this period you contract a loan, when you get better you have to repay that loan, with interest. Nobody is interested in extending the period of convalescence, but, on the other hand, no one can afford to artificially accelerate it. Not just central banks are key players, but the banking sector in general is relevant and the evolutions in the field are going to impact the world economy in the following decade (Anghel, 2011).

In presenting this picture of 2014, we would like to raise two important questions. Even if the U.S. recovers, they will not return to the former glory. America will no longer be the "global sheriff". Firstly, because this position is very expensive and America no longer affords to spend so much money for this purpose. Secondly, because America must take into account two new powers - China and Russia. 2014 will be a year when America's rivals will test the determination of the "sole superpower" to protect its position established

in recent years. The first test of this kind took place recently and it appeared “out of the blue”. On November 23, China stated that any aircraft intending to enter the airspace of the East China Sea must have the approval of the Chinese authorities; otherwise, they will be subject to defensive measures. This space, considered by China its territory, also comprises the uninhabited islands that the Japanese call Senkaku, and the Chinese call Diaoyu (Economist, 2013). Eventually, the Americans – also stirred by the Japanese – sent two bombers in the area, mainly to discourage their opponent. The Chinese reported them as flying just outside the “safety zone”. Specialists consider that we are dealing with a test conducted by China to assess American’s determination to support its strongest ally in the region, Japan. Martin Wolf, chief economic commentator at the *Financial Times*, made an intervention on the subject with a very suggestive title: „China must not copy the Kaiser’s errors” (Wolf, 2013).

The second problem: budget spending was cut, labor costs were reduced. Competitiveness did increase. The problem is that, if not everything, then almost everything, was done on the backs of labor and almost nothing on the account of capital.

For example, in Romania, from 100 newly created units, 60 percent is appropriated for capital and 40 percent for the workforce. In Germany, the ratio is exactly the other way around. Competitiveness? It’s OK! Economic growth? The same! GDP per capita? Yes, all of these are important, but when will we have an indicator for happiness per capita? I think that, entangled in all kinds of figures and calculations, we run the risk of forgetting about ourselves, about the people. If not for their happiness, at least for a certain satisfaction and a certain degree of comfort somebody should, still, care.

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