

Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

In Times of Trouble

Johann Wolfgang von Goethe observed that “history is a great fugue in which the voices of nations one after the other emerge”. The Roman Empire with its classical civilization was dominant some two thousand years ago until its ultimate collapse in the fifth century. Europe was the center of culture and enlightenment in the period of the Renaissance following on from the Middle Ages. The nineteenth century was notable for the dominance of the British Empire that was then “riding the floodtide of industrial supremacy”. The twentieth century experienced the emergence of the United States of America as a powerful nation with its “rise to globalism”. The twenty-first century is widely acknowledged as the Asian Century with China’s “peaceful rise to great-power status”. World history provides many examples of these transitions of power that, in typical cases, have been accompanied by troubles and conflict, whether military, political, social or economic. Each era is characterized by its own specific challenges to maintain stability and order for the good of society. The actual outcomes have, however, historically included wars, economic recessions and depressions, inflation, devaluation of currencies, defaults on national debt, unemployment, population displacement, poverty, hunger and disease. Responding to this “sea of troubles” presents a whole host of challenges to the ability and effectiveness of those in power.

Today’s headlines and sound bites are indicative of a world that, in the words of Shakespeare, is both in “a sea of troubles” and experiencing “the slings and arrows of outrageous fortune”. A trade war between the United States and China is developing in a troublesome fashion. Financial markets are in turmoil, experiencing significant volatility. Interest rates are very low or even negative in many countries. The United States Treasury yield curve has become inverted with

long-term rates well below shorter-term rates; a situation that is widely interpreted as a pre-cursor to economic recession. Evidence is emerging of a global economic slowdown, notably in Germany and China. The United Kingdom is scheduled to exit the European Union under conditions that are likely to have negative economic consequences. Rising tensions and street demonstrations in Hong Kong present a challenge for China to maintain its commitments and preserve order. Italy is experiencing political turmoil with the dissolution of its government. France has experienced its share of protests and violence with the emergence of the “gilets jaunes” expressing opposition to government policies. Climate change becomes more serious year by year as its inexorable effects become evident. In Brazil, the rainforest is being ravaged by massive uncontrolled fires.

As initiatives are undertaken to address these contemporary challenges, people are anxiously becoming attentive to pronouncements and communiqués from various world and national leaders. This month the US Federal Reserve held its 2019 Economic Policy Symposium in Jackson Hole, Wyoming, hosting central bankers, policymakers, academics and economists from around the world. The G7 group of nations, (Canada, France, Germany, Italy, Japan, United Kingdom, and United States) is meeting in Biarritz. The Summit Meeting takes place under the French presidency of the G7, which is centered on the fight against inequalities. In this context, the French G7 presidency has adjusted the format of the G7 to involve the leaders of the African Union, the International Monetary Fund, the Organization for Economic Cooperation and Development, the World Bank and the United Nations. The G7 Summit is a discussion forum that plays an important role in shaping global

responses to global challenges, complementing the global economic coordination carried out by the larger G20 group of nations that includes China, Russia and countries from Latin America.

At the Jackson Hole symposium, the main focus was on a speech by Jerome Powell, Chair of the Board of Governors of the Federal Reserve System. He noted that the current US expansion has entered its eleventh year and is now the longest on record. Inflation has been stable during the expansion, remaining close to an annual objective of two percent. Inflation targeting policy has led to improved outcomes for employment and price stability. However, this long expansion has brought a buildup of financial risk; assuring financial stability requires greater resilience in the financial system. Interest rate policy, set close to zero, now requires a full-scale review and assessment of monetary policy strategy, tools and communications.

At the G7 Summit, participants addressed foreign policy and security affairs, including relations with Iran. They also discussed the global economic outlook and issues relating to trade, including how to safeguard the rules-based trading system and ways to de-escalate current trade tensions. A specific G7 action plan for Africa was endorsed to improve development and security in the region. Commitments were also made to address issues relating to societal inequalities and women’s empowerment. Other areas discussed relate to climate change, specifically the implementation of the Paris Agreement.

The Buffin Foundation

1629 K Street, NW
Suite 300
Washington, DC 20006

Email: info@buffinfoundation.org
www.buffinfoundation.org

