

'US economy recovery

V.L. Srinivasan
Chief Reporter

In the third and final part, Med Jones discusses in detail the prospects of US economy, sectors and assets where people can invest. Excerpts:

Q. Since the US economy is the world's largest, and can impact global economy, what are your mid-term and long-term outlook of the US economy?

While in the short term US will continue to recover, I'm not fully optimistic about the mid- and long-terms yet. A change in my outlook depends on US government policies, the global competition and private sector variables.

My main concern is that the recovery was created by an accounting trick; they took the bad assets off Wall Street and put it on the government's balance sheet. It is merely a psychological trick to rebuild confidence in the financial markets. It worked! Wall Street recovered, but the US tax payers and main street businesses will have

● Med Jones, President of International Institute of Management.



QUOTE OF THE DAY!



I hope that people see me and see a different skater. But it's not bad being compared to the Olympic gold medalist, and it's nice having her in the family.
EMILY HUGHES, 1989

to pay for it through higher taxes, higher interest rates, inflation or a combination that will eat future profits and spending power thus hindering growth rates for a long period of time.

The only hope for a real US recovery is from the private sector, US companies selling new innovations globally in industries such as nano-tech, bio-tech, and converged media. The real economy, Clinton's surplus and recent US wealth was built by entrepreneurs and companies such as Apple, Google, Boeing, and GE. The future will not be different, only an innovation-driven economic growth can attract foreign investments, generate enough revenues to pay the debt and re-energise growth again.

Q. What are the risks for the US and the global economies?

Among the key risk variables are economic policy changes and global geopolitical events such as war with Iran that could destroy oil production in GCC, damaging the oil supply and depressing the world recovery, war with North Korea or currency wars with the US, another

debt crisis in the EU and so on. While these risks can be mitigated, one can never rule them out. Any major event can create another crisis or delay the recovery, and when you try to predict another crisis or lack of it, you can never underestimate the stupidity or genius of the decisions of the leadership.

So with this disclaimer in mind, all key decisions and trends remain the same and absence of major negative events, the key challenges and the outcome are clear; the US, the UK, and Europe will have to go through a period of correction, uncertainty and austerity.

Their recovery is, of course, linked to a host of challenges, including the fragile state of banks, poor public finances, the impact of fiscal tightening on growth and the negative consequences of policy-making driven by populist domestic agendas, such as the voting blocks protecting social security, taxes, and groups of population, etc.

Risks are not limited to the West. Excessive capital inflows, plus domestic inflation pressures, are already creating policy challenges across some emerging economies. China and Asia will have to act to prevent

the emerging financial bubbles. Overheating-investments and fears will test the policy makers in each country. My view is that they will make mistakes but eventually, we will all overcome these challenges and recovery will continue in the short term.

Q. Is it the end of the road for the US as an economic super power?

After the collapse of the USSR, the US became the world's sole superpower both, militarily and economically. The mistakes of our political elites led us to where we are today. I do believe that we will recover from the next crisis too.

US will not turn into a third world country or a poor nation, however it is unlikely that we will be the only superpower or be the super rich country we used to be. Wealth is being distributed globally and the world is becoming multi-polar.

This is evident by the expansion of G-7 to G-20. In the next 7-10 years, if the US macroeconomic trends remain in the same direction, while other countries are growing in power and wealth, we will lose our leadership. We will become

like the UK, an influential political and economic player but not the sole super power or the global economic empire it used to be.

This is inevitable; it is part of what I call as the inescapable cycle of distribution of power and wealth. In the global system every nation must go through the cycles of expansion and contraction.

This is true for all past and future powers, the gap of knowledge, wealth, development and power between nations is reducing and the reign of super powers is shortening, just look at the history of the Roman, Islamic, Russian and British empires, they are getting shorter, in the business and economic worlds the same cycle applies; for Ford, IBM, Nokia, and others, the cycle of change is becoming faster.

There is an increased rate of trade and knowledge exchange, spread of innovation, industrialisation and entrepreneurial cultures around the world, the net result is more distribution of wealth, reduction in power and wealth gaps between the US and rest of the world and a natural change of the world order. The countries that succeed will be