An agenda for global fiscal activism

By Jim O'Neill
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Two important events loom on the calendar this month: the United States' presidential election on November 8, and British Chancellor of the Exchequer Philip Hammond's first Autumn Statement on November 23. Obviously, the latter will not be as significant an event as the former, but it nonetheless will have important consequences beyond the United Kingdom.

So far this year, economics has had to compete with more emotional issues, such as personal attacks in the US election, and UK voters' decision to leave the European Union. But in both the US and the UK – and not only there – we can expect to hear more about active fiscal policies, especially with respect to infrastructure.

In the communiqué released after September's G20 summit, the group's leaders repeatedly mentioned steps to boost world growth through infrastructure investment, and argued for more coordination among monetary, fiscal, and structural policies. Although recent data from the US and China – and surprisingly also from the eurozone and the UK – suggest that GDP growth in the fourth quarter could improve upon the sluggish performance earlier in the year, a strong case can still be made for fresh policies to strengthen the world economy.

After recently leading the UK's Review on Antimicrobial Resistance (AMR), and having thought long and hard about educational initiatives, I believe that it is time for a more adventurous response to both long-term and cyclical challenges, especially for developing countries. And reading Jeffrey D. Sachs's recent commentary, "The Case for Sustainable Investment," only strengthens my conviction that policymakers and key development-finance institutions have a huge opportunity.

Fiscal activism need not stop at infrastructure. In the Review on AMR, we showed that global GDP could suffer a $100 trillion loss over the next 34 years if we do not make certain public-health interventions between now and 2050. Those interventions would cost around $40 billion over a decade, which is to say that the investment needed to prevent $100 trillion in lost growth costs less than 0.1% of current global GDP. As an astute investor friend pointed out to me, this would be the equivalent of a 2,500% return.

Investments in health and education are crucial for the developing world's long-term prospects. As someone closely associated with the BRICS countries (Brazil, Russia, India, China, and South Africa), it seems obvious to me that the New Development Bank (NDB) – or the BRICS Development Bank, as it was formerly known – can and should help these and other emerging economies cooperate in both areas.

The Review on AMR concluded that ten million annual deaths will be attributable to drug-resistant infections by 2050, and that drug-resistant strains of tuberculosis could cause one-quarter of them. It seems only reasonable that the NDB should announce steps to support pharmaceutical research into new TB treatments and vaccines, particularly for drug-resistant strains, given that TB is especially prevalent in the BRICS. And, beyond the BRICS, the other low-income countries that the NDB is trying to help will suffer even more without a proactive approach.

Similarly, many people in the BRICS and low-income countries do not have access to quality primary education, so the case for a major spending boost in this area should be clear. Sachs makes the same point, and former British Prime Minister Gordon Brown, who is now United Nations Special Envoy for Global

Education, has called for more creative financing methods and social enterprise in this sector.

The NDB, the World Bank, the International Finance Corporation, and the Asian Infrastructure Investment Bank should all be considering the activist fiscal-policy course developed countries are now charting for themselves. And they should take it further, because the policy imperatives they face are ultimately all interrelated.

In the West, the turn toward fiscal activism reflects widespread recognition that monetary activism has outlived its usefulness, at least at the margin. To be sure, central banks technically should do whatever it takes to meet their inflation targets; but excessive quantitative easing has imposed high costs, and seems to have favored the few at the expense of the many.

With monetary activism past its sell-by date, an active fiscal policy that includes stronger infrastructure spending is one of the only remaining options. But it is not a free lunch, as many of its promoters often suggest, because policymakers cannot ignore the high levels of government debt across much of the developed world.

It will be interesting to see how Hammond navigates the path toward higher infrastructure spending, while sticking to the Conservative Party's platform of fiscal responsibility. And in the US, if we look beyond the fog of election-season opprobrium, it appears that both sides are in favor of more infrastructure spending.

That being the case, the next US administration (regardless of who wins), together with a new UK leadership struggling to demonstrate its post-Brexit "openness," should extend fiscal activism beyond domestic infrastructure to global development more generally. For example, with proper support, the World Bank could create new investment vehicles such as AMR or global-education bonds, which would support future development and salvage future global growth that may otherwise be lost.

The US and the UK both need to show that they can move beyond their highly sensitive – and, frankly, narrow-minded – domestic political issues. And they should remember that without the export markets that the BRICS and other emerging countries represent, all attempts to rebalance their economies will be in vain.

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