

Why the west faces a harsher future

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Review by Martin Wolf

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Losing Control: The Emerging Threats to Western Prosperity, by Stephen King, *Yale University Press*, RRP£20 (\$30)

Do you believe the global market economy offers bright opportunities to the west? Do you think, instead, that the best response would be to cut the west off from global trade, capital flows and immigration? Stephen King has an answer to both: you are wrong. The future is going to be tough for the western countries that have enjoyed centuries of economic and political domination. But opting out would make it worse, not better.

King is chief economist of HSBC. He is also among the most dispassionate analysts of the world economy. In this book, he provides a sobering view of what is happening: western policymakers do not understand how far the **rise of emerging countries** is changing the world. They suffer from the illusion that they are in control of events. But events control them, instead.

In King's view, many western optimists mistakenly think the rise of the west was due to superior institutions, particularly the market, and superior science and technology, particularly in commercial applications. He argues, instead, that the west reached its pinnacle at least as much by rent-seeking or, to put it more bluntly, by plundering the world's physical and human resources. Meanwhile, other civilisations "were disconnected from the world's productivity engines through the suppression of ideas, innovations and linkages with other nations, or by the violence meted out to them by the western powers".

Even in the postwar era, argues the book, high incomes in the west were made possible only by the privileged access of its workers to the world's most advanced technologies and largest stock of capital. Globalisation and the rise of emerging countries are terminating all such monopoly positions.

The result, King argues, is a world that is both different from the one the west imagines and far less friendly. Westerners fail to understand, for example, how far rates of interest are set by emerging countries, above all by China. Again, emerging country supply and demand increasingly determines prices of western imports.

The results, King insists, have included big mistakes by western policymakers, not least placing too much confidence in inflation targeting at a time of falling dollar prices of manufactures. Similarly, policymakers failed to understand how capital flows had undermined monetary autonomy.

Shifts in the global economy have, argues the book, brought large changes in the distribution of income within western countries, in favour of capital and skilled people, and against the rest. Also important is the rise of "state capitalism": governments, not markets, are managing the outflow of capital from emerging countries; and governments are promoting bilateral deals in investment and trade that may adversely affect western interests. Meanwhile, as the west ages, it becomes dependent on immigrant workers and returns on investments in emerging countries. The former is unpopular and the latter uncertain.

As the sleeping giants awake, they will also challenge the west and, above all, the US more directly. The latter, predicts King, will find even the dollar a tarnished asset.

Do I buy this line of argument? The answer is: yes, but only up to a point. Western relative power is surely in irretrievable decline: how long could 12 per cent of the world's population hope to dictate to the rest? The relative economic position of westerners is also deteriorating, rightly so. But it is far from clear that the rise of the rest diminishes prospects for western prosperity. That depends on how Malthusian the world turns out to be – a subject on which people disagree fiercely, without conclusive evidence.

What cannot be doubted is the scale of the economic and political adjustments ahead. Western children will live in a vastly more competitive world. Handled badly, these adjustments might well lead to global political and economic breakdown. The last is also the conclusion King reaches.



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Maybe, King's position could be described as tough realism: coping with change is going to be hard, but there is no sane alternative. Marrying an integrating global economy to a fragmented global polity is particularly difficult. Radical institutional reforms are surely desirable, but unlikely. The dangers ahead include the **re-emergence of protectionism** against trade and capital flows, particularly in response to the rise of state capitalism, and even outright conflict.

King concludes that the west can "lose small", by adapting to the rise of the rest, or "lose big", by resisting it, instead. He is right. The west should continue to grow more prosperous. But the days of ignoring the impact, interests and ideas of the rest are over – not before time, we must add.

The writer is the chief economics commentator of the Financial Times

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