Opinion

Long-range prospects for global economy are sound

The grim economic news of the markets on Wall Street and in Europe has caught some of us off guard and certainly caused much anxiety here and internationally. Much has already been said about the causes and consequences of the current economic downturn.

Certainly, a rating agency’s downgrade of U.S. credit rating is unprecedented. Yet the underlying causes of excessive sovereign debt that have been planted over a long period — however, not attended to in time — are by policy makers.

It is hard to anticipate exactly how the markets will behave over the next few days or weeks. In the contemporary environment of anxiety, uncertainty and lack of confidence, investor behavior is decided in part by psychology rather than sound judgment. Unfortunately, confronted with uncertainty about the future, corporate leaders and business owners will refrain from making expansion plans, further contributing to the slowdown.

In fact, fundamentally, problems need to be tackled both in Europe and here in the U.S. before we can see some relief. In Europe, early in the crisis, the EU leaders missed the opportunity to stop bleeding by resorting to an orderly default by Greece. They still have the choice of dropping fiscally irresponsible member countries from the Eurozone — an option they don’t appear to be favoring.

In the U.S., structural problems have to be addressed. These include sovereign debt, housing market, enormously costly wars financed by borrowed money, and funding of Social Security and Medicare. Obviously, effective response to these fundamental challenges requires unwavering political resolve in Washington and state capitols.

Looking in on the global economy. Why so much optimism? What gives us confidence?

Two fundamental trends are providing a positive long-run outlook for the global economy. First, in the U.S., (despite all the negative news), deep-rooted ingenuity and creativity of American entrepreneurs and corporations will prevail. We have abundant examples of discoveries and risk-taking attitudes which have propelled companies to the forefront of their markets and their competitors. Innovative, value-added businesses, led by globally competent managers, will continue to thrive. No uncertainty about that!

Just look at the U.S. based firms that have been marginally affected by recent stock market gyrations. Companies catering to a global market will continue to prosper. These are in (be) such diverse yet globally focused industries as infrastructure (Bethel, Caterpillar, Carrier), office furniture (Steelcase, Herman-Miller), medical devices (Medtronic). Add to these those leaders in biotechnology, energy, defense contracting, and professional services. In the final analysis, global entrepreneurial prowess of U.S. firms will carry us forward.

Why so much optimism? First, in the U.S. (despite all the negative news), deep-rooted ingenuity and creativity of American entrepreneurs and corporations will prevail.

The second reason by far the long-term prospects for the global economy are encouraging is the dynamism of emerging markets. A steady stream of developing companies that enter a rapid and protected phase of market liberalization, economic transformation and new jobs is now a well-rooted phenomenon. Emerging markets’ contribution to global growth is already twice as much as the advanced economies; this trend surely continues for the next several decades. Only about a third of the 30 largest economies in the world in 2050 will be the advanced economies of today. Top 10 economies will include China, India, Brazil and Mexico.

What is fueling these high-growth economies? In the final analysis, it is the formation of a middle class — substantial upwardly mobile consumers, with sizeable disposable income, located in densely populated urban centers, aspiring to enjoy comfort, lifestyle and the symbols of their western counterparts. What is remarkable about their relentless drive to grow their middle class is human aspirations. When travelers through cities in Asia or Latin America, I am most struck by a young, strong and well-educated young population, rising expectations, eagerness, material things, engaged, technological leapfrogging, and a consumable taste for western brands.

This is precisely why we have been monitoring the evolution of middle-class formation in emerging markets at the Robinson College of Business, Georgia State University. In the GSU-CIBER Middle Class Index, we track on-disposable income, actual household expenditures and urban population. In the most recent study, those economies that occupied the top ranks included the usual suspects (Hong Kong, Singapore, China and Brazil), but also some surprising economies such as Venezuela, Israel, Taiwan and Czech Republic. Mentioned in this in another commentary.

Nevertheless, you can count on this middle-class dynamics in emerging markets are robust, widespread and persistent.

These are two observations that make me quite optimistic about the future.

Next, of course, global economic competitiveness is not an entitlement, it has to be earned. As a minimum, this requires proper investments in education and innovation (patents, R&D), cultivation of entrepreneurial energy, responsible public policy, and prudent governance.

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WASHINGTON BRIEF

Small-business indicators fall for fifth month in a row

An index of small-business owners fell in July for the fifth month in a row, thanks to pessimism among business owners about future sales and business conditions.

The National Federation of Independent Business’ Small Business Optimism Index dropped nearly one point to 89.9, below its average reading over the past two years.

“Expectations for growth are low and uncertainty is great,” said NFIB Chief Economist Bill Dunkelberg, citing “the current political climate, the protracted debate over how to handle the nation’s debt and spending, and now this latest development of the debt downgrading.”

Despite low interest rates and tax breaks for business investment, only 20 percent of small-business owners plan capital outlays over the next three to six months, according to the survey. That’s a recession-level reading, according to NFIB. Only 2 percent of small-business owners plan to create new jobs in the coming months.

Rep. Sam Graves, R-Mo., who chairs the House Small Business Committee, said Washington can encourage small businesses to expand “by reducing burdensome regulations, reforming our tax code, quickly passing free trade agreements, and addressing our out-of-control federal debt.”

“Entrepreneurs and small-business growth is the solution to the most significant problem that our economy is facing — unemployment,” he said.

“However, Washington must help provide an environment for this type of growth and then get out of the way so that the private sector can thrive.”