By Stephen D King

Published by Yale (ISBN: 978 0 300 15432 0)

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Stephen King is the global chief economist for HSBC and is a member of the European Central Bank Shadow Council. This is his first book and it is unusual of its genre in that it looks at the Western developed markets from the perspective of the emerging markets, particularly that of China. It is written in a forthright almost textbook style that is detailed and tightly argued with the benefit of 'trivial' examples. The reader does not have to be an economist to understand the central message but it would help with some of the more complex ideas that King advances.

The theme of this book is that Western governments are losing control of their economies. Throughout King is quite critical of policy makers, political and business leaders, and central bankers in the developed world who he argues have not recognised that the global economy is moving irrevocably eastwards to Asia and that the developed economies can no longer manipulate the world markets. This fundamental shift in the global economic centre of gravity will have an enormous impact on income and wealth distribution, economic stability and market forces. They also need to recognise that economics and politics in the emerging markets are conjoined in the form of state capitalism in Brazil, Russia, India and China (known as the BRICs), as well as other countries in the Middle and Far East. This state capitalism has already built up large holdings of Western assets that include a large amount of American debt. It is these emerging markets that will dominate the use of the world's scarce resources, particularly of food and energy, and generate most of the profits. The concept of globalisation that the Western economies thought would make them rich could instead be their downfall as Western policy makers discover there are finite limits to their sovereign powers.

King's argument goes like this. In pursuit of cheap labour and larger profits the West exported its technologies and outsourced industrial production principally to China and India. As a result the West increasingly earns less whilst seeking to consume more. The Western governments then sell paper securities to the economies upon which they depend. As resources become scarcer, prices increase due to rises in demand but where is the money to come from? Unfortunately, the emerging economies have turned out to be mainly savers and not unfettered buyers whilst investment in the emerging markets has not produced the returns expected. In practise globalisation is serving to increase the inequality of wealth within countries and decrease it between countries. There is a growing inequality in wealth in the West, particularly in the UK and the US.

A further factor that will increasingly work against their economies is that they have an ageing population, which is already evident in Europe and will soon be so in the US. There will be an ever-growing number of pensioners dependent upon a declining work force whose incomes will be reducing from low investment returns and whose demands on expensive social services will rise and be a heavy burden on governments when national wealth is also in decline. King makes the point that on immigration our politicians are making the wrong decisions, instead of deterring the immigration of young workers, the UK should be encouraging them as, "we need their labour and their youth".

King is sceptical of the claims of central banks that it is their expertise in manipulating interest rates that have achieved stable prices. In his opinion the narrow policy focus of setting low inflation targets to achieve stability has in fact contributed to financial instability. With increasing commodity prices due to demands by China et al, this narrow policy will create falling wages. Together with concomitant lower interest rates that encourage investment in countries offering higher rates, the resultant reality is that capital markets become increasingly distorted mainly by the decisions of the emerging world and he believes these distortions will only get larger over time leading to greater economic turbulence for developed markets.

For a long time many countries with under-developed financial organisations have found it convenient to peg their currencies to the fortunes of the US dollar that since the mid 20th Century has become the world's only reserve currency. However as King reflects, the growing wealth of emerging state capitalism and sovereign wealth funds is becoming quite impatient with the weakening dollar. The US has financed its vast debt largely through the dollar's role as a reserve currency and if it were to be replaced then the US economy would be hit hard. The loss of reserve status would inject greater volatility into the global financial system and for the US would hugely raise the cost of imports making the US significantly worse off. But King argues that the current imbalance, whereby the US has most of the benefits and the rest of the world shoulders most of the costs, cannot continue indefinitely. China might well choose to position the renminbi so that in time it could be recognised as a reserve currency.

Despite King's warnings that the developed nations will be the biggest losers as the economy of state capitalism takes over from the global market economy, the future is not necessarily as bleak as one might deduce. The road ahead may not be smooth for the emerging economies, as Dubai has recently discovered. The emerging economies will have to contend with imperious and illiberal political systems as well as regulatory systems that lack the essential robustness. Also, China faces enormous infrastructure and environmental challenges that could slow down, if not derail, its economic growth. As he points out there are technological developments in farming and alternative energy sources that may well mitigate food and energy shortages and hence moderate the price rises. Nevertheless King is clearly suggesting that the developed nations need to accept that their expectations of continued growth underpinning steadily increasing standards of living are at an end and that there needs to be an acceptance of relative decline and more modest aspirations for our future. Attempts to avoid the seemingly inevitable by turning to protectionist policies will most likely hasten an era of economic stagnation.

There is one key question arising out of King's book that he largely sidesteps. That is, how will the US react to losing its dominant superpower (political, economic and military) status and dropping down the global economic league table to a position of second or third behind China and probably India over the next 50 years?

The importance of King's book is that it asks the necessary questions and provokes serious thought as to how the UK and US should respond to the loss of economic sovereignty and bargaining power to the emerging economies as we move from the global recession into a period of long term austerity.