

I have been analysing and forecasting economies since I worked in our Treasury in the late 1960s. Over that time, I have fortunately been able to predict most of the key economic developments and events in the global and in our domestic economy – [stagflation](#) , recessions, stock and property market crashes, [the Asian crisis](#) , the [tech-wreck](#) , the [global financial crisis \(GFC\)](#) , and so on. Yet it is much harder today to assess where to next than at anytime over that period.

Many of the economic relationships, that many have come to take for granted, seem to have broken down. To cite just one example, the view that if the world was flooded with liquidity, we'd not only stimulate significant real activity, but soon experience runaway inflation. Yet since the GFC, with massive “quantitative easing” (keeping interest rates low, mostly near zero, or even negative) in the US, Europe, Japan and recently China, there is still a significant risk of deflation, and the real economy, especially business investment, hasn't really responded.

Europe is struggling to avoid a triple-dip recession with deflation, a risk now seriously enhanced with the Brexit vote. The US recovery seems to be faltering with the Federal Reserve threatening to raise interest rates, which could not only slow US growth, but precipitate further turmoil in emerging economies, in their stockmarkets and in their currencies.

Japan is still stuck in decades of rolling recessions and deflation. China's growth is closer to 4-5%, much lower than the authorities would have us believe. It also has a host of structural issues – economic transition, demographic forces, aggregate debt, bad bank and non-bank loans, inequality, corruption and pollution – coming to the fore. And most emerging economies are in deep recession.

All these economic policy challenges are being overlaid, and further complicated, by mounting political and market volatility. This includes serious structural demographic trends like ageing and mass migration, a host of increasing geopolitical tensions, and the significant challenge of climate change to achieve net zero emissions by 2050.

All up, world growth forecasts by most global and regional forecasters are being downgraded consistently. It is clear that the world will have to live with lower growth for many years to come. Most commodity prices are predicted to remain subdued, and world trade will remain particularly weak, having collapsed by some 14% last year.

Moreover, global policy authorities have almost exhausted their traditional monetary and fiscal policy capacity and flexibility, and now must face enormous political and institutional constraints that are working against genuine structural reform. It also seems that polls and betting odds are no longer a reliable guide to the “feelings of the masses”.

Some of the political forces at work are also of particular concern. For example, the recent Brexit vote revealed just how easily sound economic arguments can be overtaken by fear and emotion, driven mostly by misrepresentation and exaggeration, ignorance, and prejudice.

The outcomes could include a disunited kingdom, a fragmentation of Europe (still the world's second largest economy) putting the Euro under real strain, and a UK, if not global, recession. We have seen a significant, and most disturbing, increase in anti-immigration sentiment across Europe, manifesting in significant political movements.

Equally, the US political system has been turned on its head by the emergence of Donald Trump, running his anti-immigration, anti-China, anti-freer trade, anti-globalisation agendas.

These and many other political forces could easily serve to stall, if not work to reverse, the significant economic progress made globally since the second world war, by integrating the world economy with the freer flow of goods, capital and people.

In my experience, the world has not faced a more challenging time, with such limited policy alternatives and capacities, and with little or no historical experience on which to draw.

Australia has just endured one its longest and most boring election campaigns, with little more than a passing reference to some of these challenges, but certainly no genuine recognition of their significance to the policy challenges our governments now face domestically.

Economic policy challenges will swamp our election outcome, no matter who ends up winning

Written by The Conversation

These global conditions and challenges are of such significance that it could so easily swamp anything that was said or promised by any of the parties in this campaign.

The need for inspired leadership in our country has rarely been greater. We saw no evidence of it in this campaign. The outcome will be more uncertainty, less stability, and even poorer government, at this most challenging time.

Disclosure

John Hewson is chair of the Asset Owners Disclosure Project, and was federal leader of the Liberal Party from 1990 to 1994.

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