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US should consume less, invest more: Nobel laureate

By Yasmine Yahya

THE United States has to invest more and consume less if it is to lift its economy out of the doldrums and make a full, long-term recovery, said a Nobel Prize-winning economist.

'If I had dictatorial power, I would raise the taxes - not permanently - but I'd say, 'Look, we've under-invested and over-consumed for an extended period of time. We have a deficit and it's having an adverse effect,'' Dr Michael Spence told reporters after a lecture.

'We don't know exactly the magnitude of it but if we're really serious about the opportunities set for our children and grandchildren, then we ought to rectify the situation - consume less and invest more,' he said.

Dr Spence, who won the Nobel Prize for economics in 2001, was in Singapore last Friday to speak to students and academics at the National University of Singapore's Faculty of Arts and Social Sciences.

He noted that if the US was serious about creating robust economic growth for future generations, it would invest more in infrastructure and education - something which the government is not doing.

'It really does make a difference if we invest in infrastructure and get the effectiveness of the educational system up and work on the match between skills and demand, and have a decent and sensible tax system.'

If financial markets and businesses get frustrated with the government's strategy, this could trigger another recession, Dr Spence said.

'Markets get fed up with policymakers, business remains uncertain about the future course of the economy and regulatory patterns, so are reluctant to invest, the housing market turns down... so I can see it going very badly.'

But at least the problems in the US are not at a stage where things look hopeless - like they are in Greece, he said, because Greece's productivity is too low.

'Even if they magically had a completely stable fiscal situation overnight, they still can't compete in anything. They can't grow,' he said.

The rest of the beleaguered European Union will have to decide what it should do to salvage the situation, he added.

'Roughly speaking, Europe and investors, banks and other countries have to decide how much is going to get done for the countries in trouble and how those costs are going to be shared or distributed,' he said.

'Then, depending on whether that help is enough, the countries that need the help will need to decide what it is they need to do to ride the ship, given that there's (only) that much help available - and are they willing to do it?'

As for Singapore, Dr Spence believes the most pressing issue the regulators will have to deal with is the influx of hot money from other parts of the world seeking higher returns.

This excess liquidity will lead to higher inflation rates, but he believes the government will be able to strike a balance between curbing inflation and not letting the Singapore dollar appreciate too much.