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Analysis: West's mid-life crisis points to power shift east

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NEW YORK/SINGAPORE (Reuters) - The world's industrialized nations, burdened with aging populations and deeply in debt, face years of slow economic growth that could speed the shift of economic clout to the East.

The United States has no coherent plan to pay for supporting a retiree pool that is about to overflow with the so-called "babyboom" generation, and lawmakers missed an opportunity to address that during the debt debate that dragged the country to the edge of default this week.

Its economy is too weak to create enough jobs for young people on whose shoulders the debt will ultimately rest.

In Europe, economists warn of a "lost generation" as youth unemployment soars as high as 40 percent in some countries. The average public debt of the 27-nation European Union stands 20 percentage points higher than it did before the financial crisis struck in 2008.

Across advanced economies, the average debt per person is $29,600 in 2011 and is expected to reach $40,400 in 2016, said Brookings Institution economist Eswar Prasad.

For Americans, the debt burden per capita is $34,200 in 2011 and will rise to $49,100 by 2016. Japan's is projected to hit $85,000 per person in 2016, the highest in the world.

Some of today's fiscal trouble is a consequence of the 2008 financial crisis, which drove millions of people out of work -- some of them permanently -- and shifted an enormous private debt burden onto the public sector.

The crisis struck at the worst possible time: at the leading edge of a retirement wave that will drive up healthcare and pension costs across virtually the entire developed world.

If public debt is not lowered to pre-crisis levels, potential growth in advanced economies could decline by more than one-half percent annually, the International Monetary Fund estimates. Project that out over a decade or so and it is easy to envisage both the United States and Europe limping through decades of Japan-style stagnation.

It does not have to be that way. Germany cut spending on welfare and jobless benefits in the 1990s which helped revitalize the country as the powerhouse of Europe. Canada and Belgium also offer examples of how to turn around debt-heavy industrialized nations.

Nonetheless, the challenges look immense. The U.S. economy nearly stalled in the first half of 2011. Data on Tuesday showed consumer spending fell in June for the first time in nearly two years. It is not clear what will generate healthier growth in the future.

In Europe, despite cuts in spending and tax hikes, concern is acute about the ability of countries to tackle debt. Italian bond yields hit their highest level in the euro's 11-year lifetime on Tuesday, prompting emergency government talks.

With interest rates at or near record lows in the United States, Britain and the euro zone, policymakers have limited options to spur faster growth.

Reuters posed a crystal-ball question to economists and political scientists around the world: what happens if the 20th Century powerhouses can't pull their weight?

"Our society is in a mid-life crisis," said Allen Sinai, president of DecisionEconomics in Boston. "The jury is out whether we, as a nation, can come to grips with what is needed to find our way out of this in a reasonable way."

Three themes carried through the conversations:

* Debt burdens will weigh on economic growth in the United States and Europe for years to come, and Washington is still far from addressing the root causes of its fiscal problem.

* Emerging markets have the growth prospects and the public savings to start to supplant the United States as the world's consumer of last resort, driving the global economy. What they lack is the political will and experience to set the agenda, which means the West won't merely fade into the background.

* It will take a long time to clean up the fiscal mess.

"Assuming both the U.S. and Europe can have multiple years of sound fiscal management, which is a huge assumption, it will still take probably the majority of the rest of my career -- and I'm not that old -- for them to bring debt levels down to stable levels," said Kenneth Akintewe, a portfolio manager with Aberdeen Asset Management in Singapore.