

## **Needed: A Fed for the World**

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Even as emerging markets sink into depression and stocks plunge from Montreal to Melbourne, a global economy is slowly emerging, albeit in a tortuous and painful way. But governments seem paralyzed, unable to deal with both the crisis and the opportunity.

Today's chaotic international market mirrors how the American economy evolved between the Civil War and the 1930's. For well over half a century we, too, had booms and busts, countless bank failures, rampant bankruptcies. Capitalism was an uncontrollable Darwinian process, with big winners and big losers.

But over time the United States set up crucial central institutions -- the Securities and Exchange Commission (1933), the Federal Deposit Insurance Corporation (1934) and, most important, the Federal Reserve (1913). In so doing, America became a managed national economy. These organizations were created to make capitalism work, to prevent destructive business cycles and to moderate the harsh, invisible hand of Adam Smith.

This is what now must occur on a global scale. The world needs an institution that has a hand on the economic rudder when the seas become stormy. It needs a global central bank.

The sad fact is that we cannot rely on existing institutions or on national leaders for global economic stability.

The International Monetary Fund knows how to deal with one or a few countries at a time, but not an international phenomenon in which all countries' problems occur at once and are linked. The World Bank's mission has included financing big projects and alleviating poverty, but it is not designed for financial crises.

Simply trying to coordinate the world's powerful central banks -- the Fed and the new European Central Bank, for instance -- wouldn't work, either. If there is no inflation in the United States, the Fed won't lower interest rates simply because that would help, say, Southeast Asia. Such global responsibility is not in the Fed's charter. The European Central Bank, meanwhile, seems proud of its narrow focus on Europe. The result is inadequate attention to the three-quarters of the world consisting of emerging markets.

Effective collaboration among finance ministries and treasuries is also unlikely to materialize. These agencies are responsible to elected legislatures, and politics in the industrial countries is more preoccupied with internal events than with international stability.

An independent central bank with responsibility for maintaining global financial stability is the only way out. No one else can do what is needed: inject more money into the system to spur growth, reduce the sky-high debts of emerging markets, and oversee the operations of shaky financial institutions.

A global central bank could provide more money to the world economy when it is rapidly losing steam. For example, it could buy the bonds of the Central Bank of Brazil, thereby injecting hard currency into that country when it most needs the help (like right now). It would have the ability to buy a country's debt at steep discounts, a crucial need now because in countries like Thailand and Venezuela debts are piling up and preventing new lending and new investment. Ultimately a lot of this debt could be resold at a profit.

Such a bank would play an oversight role for banks and other financial institutions everywhere, providing some uniform standards for prudent lending in places like China and Mexico. The regulation need not be heavy-handed; providing clear and reasonably verified information to the market on the real state of banks around the world would be a leap forward. Investors could then make the informed judgments that they couldn't have made in, say, Russia or Indonesia.

None of these functions are being performed effectively now, and it will be impossible to have a world economy that doesn't resemble a reckless roller coaster unless they are.

There are two ways a global central bank could be financed. It could have lines of credit from all central banks, drawing on them in bad times and repaying when the markets turn up. Alternately -- and admittedly more difficult to carry out -- it could be financed by a very modest tariff on all trade, collected at the point of importation, or by a tax on certain global financial transactions.

One thing that would not be acceptable would be for the bank to be at the mercy of short-term-oriented legislatures. Witness how the United States Congress has consistently failed to provide new money for the I.M.F. even as the world economy slides toward deep recession.

A crucial political question is, To whom would a global central bank be accountable? It would have too much power to be governed only by technocrats, although it must be led by the best of them. One possibility would be to link the new bank to an enlarged Group of Seven -- perhaps a "G-15" that would include the G-7 plus rotating members like Mexico, Brazil, South Africa, Poland, India, China and South Korea.

Another issue is the relationship between a global bank and the Fed. There would have to be very close collaboration. The global bank would not operate within the United States, and it would not be able to override the decisions of our central bank. But it could supply the missing international ingredient -- emergency financing for cash-starved emerging markets. It wouldn't affect American mortgage rates, but it could help the profitability of American multinational companies by creating a healthier global environment for their businesses.

It is never easy to create a new institution; too many people have vested interests in the status quo. Moreover, when these new structures are most needed, officials are preoccupied with managing the current crisis. When calm is restored, attention turns to something else. But the current global financial slide, with no one at the center to limit the damage, is evidence enough that there is a huge gap in the structures necessary to make globalization work.

As the eminent economic historian Charles Kindleberger said in examining the causes of the Depression, "For the world economy to be stabilized, there has to be a stabilizer, one stabilizer." He was commenting on the lack of leadership by America in the 1930's. Today, with the United States still showing no appetite for such a role, a global central bank could be an enormous help.

Drawing (Dwayne Schoop)