

## **America must lead the world economy**

By Jeffrey Garten

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In his forceful State of the Union speech on Tuesday night, President George W. Bush focused on Iraq, his \$647bn tax cut, new approaches to healthcare, a new plan to combat Aids in Africa and a variety of other programmes. While any administration would have its hands full with so daunting an agenda, Mr Bush nevertheless gave short shrift to one set of policies that is crucial to the success of all others: Washington's approach to the global economy.

There are many reasons why increased American economic engagement with the Group of Seven industrialised nations, and important emerging markets such as China and Mexico, is crucial to the US. First, the US economy may be the global locomotive but it is a mistake to think an economic revival can be mounted and sustained without help from other countries.

Exports contributed some 25 per cent of gross domestic product in the 1990s and they are highly dependent on stronger growth abroad. Dozens of America's leading corporations rely on foreign markets for more than 30 per cent of their revenues. Their profits fuel the stock market, which in turn influences consumer and investor confidence. The US is also heavily reliant on foreign capital to finance its trade deficit, capital that is more likely to be generated when overseas economies are strong.

Second, Washington must deftly manage the complex interaction between war and economic diplomacy. Military alliances require strong economic underpinnings. Current divisions over Iraq and beyond among the Nato allies could now spill over to economic co-operation. Conversely, stronger economic ties could keep those tensions in check. Washington understood the holistic nature of its relationships with the European Union and Japan during the cold war but it is now in danger of forgetting the lesson.

Third, the task of nation-building - in Afghanistan, Sudan, Indonesia, Iraq, North Korea, possibly Pakistan and other places - will be horrendously complex and expensive and will require the long-term co-operation of other countries and international institutions. Hundreds of billions of dollars and thousands of highly skilled officials, not to mention involvement by the private sector, will have to be mobilised from around the world. Without Washington's vigorous economic diplomacy, humanitarian and reconstruction efforts are sure to fall short. We could win the wars and lose the peace.

The US should therefore bring together the G7 and other crucial nations to chart a co-ordinated course for global growth. Tax cuts in America, even if they stimulate the economy, are not nearly enough to offset stalled growth around the world. More peer pressure has to be put on Europe to pursue pro-growth monetary and fiscal policies and to loosen overbearing regulations. More arm-twisting should be applied to Japan to clean up its growth-strangling banking mess. And other governments should press Washington to worry more about its mushrooming trade deficit, now at 5 per cent of GDP, and the gap between government revenues and spending, estimated to be well over \$200bn this year.

The US ought to make every effort to break logjams in the Doha round of global trade negotiations. With so much energy going into concluding bilateral deals, one wonders whether this is the case. It should work with other G7 countries to help revive private capital flows to developing countries, where net lending is close to zero and portfolio investment is down by 80 per cent from 1996.

Instead of bashing international economic institutions, Washington should be seeking ways to strengthen them, for there is no substitute for the International Monetary Fund, the World Bank, the World Trade Organisation and specialised United Nations agencies. It is time for the US to plan for an era of nation-building by budgeting for funds and training and co-ordinating plans internationally. Little of this has yet been done. It also ought to focus the G7 on contingency planning for potential crises. A precipitous decline of the dollar, a huge increase in oil prices, or a terrorist attack on a financial centre or a leading commercial port is all too possible.

The president needs to put the right people in place for these international endeavours. Washington will soon have a new Treasury secretary in John Snow, who, despite his excellent reputation as a business leader, is untested in the global arena. Colin Powell, secretary of state, is a great military and political diplomat but he is not supported by a powerful economic staff. William McDonough, president of the New York Federal Reserve, the one highly regarded leader with extensive international experience, has just announced his resignation. Robert Zoellick, US trade representative, does an admirable job - but a superpower surely needs more international economic depth than he has on his own.

Mr Bush rightly tried to prepare Americans for war in his State of the Union speech. But he did not prepare us for the global economic engagement that will be required to support the world we would be fighting for.

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