

The world economy needs help

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Monday, January 13, 2003

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PARIS The Bush administration is leaving no doubt that it intends to use America's enormous military power to make the world a safer place. But to succeed, it must develop a more robust global economic policy as well. Unless military confrontations lead to something much better for the millions of people who will be hurt, America will have won the wars and lost the peace. It is true that the administration is aggressively promoting trade liberalization by pushing for new commercial deals with Latin America, as it has recently done with Chile and is now doing in Central America.

It is also pressing for more tariff and quota reductions around the world in an omnibus negotiation that it hopes to conclude within two years under the auspices of the World Trade Organization.

These efforts are an excellent start. But there are at least four broader challenges that the United States should now confront, and with an urgency that the Bush administration has yet to demonstrate. The first is reinvigorating global economic growth. The world economy is in trouble. Corporate investment and trade are slowing, factories are producing more than they can sell, and deflation is threatening many regions. Germany and Japan, are stagnating. Big emerging markets, from Indonesia to Brazil, are in deep trouble.

America's economy is the world's most powerful by far, accounting for almost a third of global demand these days. But even if it grows at a healthy rate this year, the United States by itself cannot create a sustainable international economic recovery.

A U.S. revival depends on the health of American companies, and that in turn depends in part on expanding foreign markets. Overseas sales of American goods and services made up at least 25 percent of U.S. economic growth in the 1990s.

And because many of America's top companies - Intel, Coca-Cola, Johnson Johnson, for example - rely on Europe, Japan and developing countries for more than 30 percent of their revenues, stronger foreign economies are important to the health of U.S. stock markets, the principal financing vehicle for corporate America's expansion.

Washington must bring together its economic partners - the Group of Seven nations made up of Canada and Japan and four in the European Union - to get the global economy moving again.

The United States, which is already running huge budget deficits and has lowered interest rates to levels not seen in generations, has little room to maneuver. But it can encourage the European Central Bank to lower its relatively high interest rates, since inflation on the Continent is not nearly the threat that stagflation is. The European Union must also let up on its growth-constricting demands that Germany, Italy and France restrict spending and, in some instances, raise taxes. The United States and Europe can push Japan to restructure its growth-strangling bank debts. Second, there will soon be an acute need to rebuild countries that are defeated or disintegrating. Estimates for reconstructing Iraq range from \$120 billion over 10 years, in the case of a very short war, to \$1.2 trillion after a prolonged conflict, according to extensive work done by the Yale economist William Nordhaus. This amount does not include the costs of the administration's vision of spreading democratic and free market institutions in the Gulf region.

The job of economic relief and reconstruction will most likely need to be handled by the United Nations, but substantial American financial support will be essential. Given budget deficits at home, this will be no easy task.

Will this money come from domestic programs or from foreign aid already promised to others? At the least, the Bush administration needs to be working with Congress to incorporate the requirements in planning - something which Mitchell E. Daniels Jr., director of the Office of Management and Budget, has been reluctant to do. One problem is that there is no single agency in Washington capable of overseeing the extensive United Nations efforts that must be mounted. One needs to be created, just as the Economic Cooperation Administration was established in 1948 to oversee the Marshall Plan. Like it or not, we are entering a decade of political and military tension, and nation-building is going to be a major part of America's response. Third, Washington needs to prepare for all-too-possible international economic crises. A major rise in oil prices in reaction to turmoil in Venezuela and Iraq has already begun and could send the global economy into a deep recession. America should be working with the European Union and Japan to release emergency oil reserves if oil prices spiral out of control. It should be encouraging Russia to expand production, too, by promising that it will buy Moscow's supplies well into the future.

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Another crisis could involve the dollar, which was down 15 percent against the euro for all of 2002. If the U.S. trade deficit continues to soar and foreigners get nervous, they could dump their dollars.

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It would help if Washington could persuade the European Central Bank to lower its interest rates - which it should do anyway to stimulate economic growth - and make the euro less attractive as an alternative to the dollar. Beyond that, Washington, Brussels and Tokyo will have to be prepared to coordinate purchases of the dollar if it goes into free fall.

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Latin America could provide the spark for a global financial debacle. After all, Argentina and Venezuela are in deep trouble, and Brazil's economy is fragile at best. In 1997 a currency collapse in Thailand set off a global financial meltdown. Washington and its economic partners had better focus more on what is happening south of the Rio Grande. Finally, the United States will have to give much more attention to helping developing countries, the very nations in which so much of today's turmoil exists, to get a fairer deal from globalization, which has disproportionately benefited rich countries so far.

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This means not only negotiating trade agreements but also improving the World Trade Organization's ability to settle trade disputes and to give technical assistance to struggling countries overwhelmed by the blizzard of new trade laws in the last decade.

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It also means helping the World Bank and its regional counterparts deal with poverty more effectively, rather than just criticizing their performance, which is what Washington so often does. The Bush administration has never shown much interest in multilateral diplomacy except when other countries press it to the wall, as they have with Iraq. But in the economic realm there is no choice but to seek partners.

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In the immediate aftermath of World War II, the United States pushed for the establishment of the IMF and the World Bank, and coordinated the Marshall Plan with European nations. Washington realized that economic stability and prosperity were essential to security. It is true today, too. The writer is dean of the Yale School of Management and author of "The Politics of Fortune: A New Agenda for Business Leaders." He held economic and foreign policy positions in the Nixon, Ford, Carter and Clinton administrations.