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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Wanted: A Brain Trust to Set the Economic Agenda

A changed world calls for new policies to ensure U.S. economic leadership. A President's commission can lead the way

Historians may look back on the summer of 2003 as a time when the U.S. faced its third great wave of severe challenges in the global economy since the end of World War II. They will note that this country approached today's problems with enormous strength, accounting for some 30% of the world's gross domestic product, 25% of global trade, 40% of world stock market capitalization, and nearly 50% of the world's 500 largest companies. But will those who write the history of this era conclude that this unprecedented economic power was used wisely?

That depends on whether the Bush Administration can develop a more coherent strategy than it has to date. In recent weeks, for example, Treasury Secretary John Snow has talked down the dollar while President George W. Bush has promoted a strong greenback. Washington has implemented massive tax breaks to stimulate the economy, yet it seems cavalier about the damage that longer-term deficits will bring. Washington preaches free trade but raises tariffs on steel. It advocates more foreign aid while inflicting enormous damage on Third World nations by subsidizing American farmers.

In the past, the U.S. did much better. That wasn't because officials were any smarter or had superior information or understood the world better. But they did have an enlightened approach to global economic affairs, and worked closely with business leaders.

The first great set of economic challenges in the modern era arose in the late 1940s. Then, the U.S. faced the prospect of a relapse into the Great Depression. It had to find jobs for millions of returning veterans and build up foreign markets for its companies. Several strategic studies, which often involved both government and business groups, helped to build a consensus for changes in fiscal and monetary policy. They also led to overseas projects such as the Marshall Plan and to the establishment of the International Monetary Fund and the World Bank.

The second wave of challenges arose in the late 1960s. Japan and Germany were regaining their competitiveness, and U.S. trade deficits started to appear for the first time. Dollars were leaving the U.S., and the fixed-exchange-rate system was collapsing. Protectionist pressures in America were becoming serious.

In May, 1970, President Richard M. Nixon responded in part by establishing a commission called "U.S. International Economic Policy in an Interdependent World" -- dubbed the Williams Commission, after the IBM executive who chaired it. The group -- comprised of leaders from business, labor, and academia -- delivered its report a year

later. Through extensive hearings and written reports, the commission gathered ideas from government officials, other experts, and business. It identified an agenda that included a focus on reducing nontariff barriers around the world. It suggested including developing nations in major trade negotiations. It promoted U.S. investment abroad. It signaled the need for the world to move toward flexible exchange rates. All were fundamental policy changes for the time -- and were eventually implemented.

We need a similar effort now. Since the early 1970s, there has been no authoritative study of the profound changes that have occurred in the global economy, including the emergence of China, the rise of the euro, the creation of NAFTA, the impact of the Internet, and the cost of counterterrorism policy on an open global economy.

The truth is, the U.S. is now in treacherous waters without a compass. Budget deficits are soaring even as security needs keep escalating. Mushrooming trade deficits require nearly \$2 billion a day in foreign funds. The economy is sputtering, and Europe and Japan are headed for recession. Washington and Brussels are on the verge of epic trade battles. Furthermore, we could be entering an era of destructive deflation. As the dollar sinks, competitive currency devaluations cannot be ruled out. Meanwhile, terrorism threatens to destabilize Saudi Arabia, our most important source of oil.

A new Williams Commission won't solve these problems, of course. But it could help by bringing together the best thinking from Washington, Wall Street, Corporate America, and abroad. The panel should address at least these questions: How can the U.S. use its economic power to create a world of sustainable growth? How can its economic policy also support its security needs? How can Washington reduce its dangerous dependence on foreign capital and oil imports? How can we lead a multilateral economic system while getting others to buy into it? What new rules are necessary to deal with food safety, environmental protection, and communications in cyberspace?

The commission could be established this summer and report to the Administration and Congress right after the 2004 Presidential election. The U.S. needs to focus the same energy on the global economic front that it has devoted to military strategy. So far, that hasn't happened.

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