

The Growing Calls for Change

By Jeffrey E. Garten
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Jan. 31 issue - The pillars of the world economy are undergoing a fundamental re-examination, and change is in the air. The only question is whether we are in for a big bang or just an acceleration of step-by-step progress. Investors, traders and bankers are tensely awaiting the London summit next week, where leaders of the G7 industrial nations are expected to address the currency gyrations stemming from massive imbalances between U.S. deficits and equally large Asian surpluses. Those gyrations have inspired calls for a new international effort to negotiate currency stability.

For several months now, in fact, new ideas about rearranging global economic power have been proliferating. Among them are U.K. Chancellor of the Exchequer Gordon Brown's design for a Marshall Plan for Africa, and Canadian Prime Minister Paul Martin's proposal for an enlargement of the G7 to a G20, with much broader representation of developing nations. Others have advocated merging the World Bank with the International Monetary Fund and establishing a formal agreement between oil producers and consumers to control high price volatility, as well as negotiating new ways to promote currency stability.

Last Monday, Supachai Panitchpakdi, director-general of the World Trade Organization, issued an analysis of challenges facing the WTO, many of which would require a significant expansion of the institution's role, skills and financial resources. The same day, U.N. Secretary-General Kofi Annan presented a call for a 50 percent cut in global poverty by 2015 that would require massive new funding and new international capabilities to deliver aid where it is needed.

It is ironic that so many proposals are emerging now, when global growth has been so strong and projections for 2005 are rosy. But many officials sense that dangerous pressures are building in the international economy, and that the institutional capability to handle them is badly stretched—or nonexistent. Dealing with poverty and disease remains a herculean challenge. In the past 15 years, some 2.5 billion new workers from emerging markets and former communist nations have entered the mainstream of the global economy, raising the prospect of massive dislocations in trade and production patterns. Money is now moving around the world with such volume and speed that investors fear they could easily be blindsided by a crisis.

If all the proposals that have been made were implemented, we would be creating a new world order as dramatic as that which emerged from the 1944 conference in Bretton Woods, New Hampshire, where the IMF, World Bank and the predecessor of the WTO were conceived, establishing the postwar economic order. But this won't happen in large part because today's political landscape is much more complex. Then there were 23 members of the new global trade organization; today the WTO has nearly 150 signatories. At Bretton Woods, it was the United States and Great Britain that called all the shots; today China, Brazil, India and other big emerging markets have a major voice in global trade and finance. Sixty years ago, there were no multinationals with the clout of a General Electric or a Goldman Sachs, and there

were virtually no nongovernmental organizations with the influence on economic policy that the Sierra Club or Oxfam has today.

Most important, after World War II it was a cardinal goal of U.S. foreign policy to build the institutions and the rules of a multilateral economic system. Given its current penchant for bilateral trade deals and foreign aid, and given its policy of using a declining dollar as a ramrod to change other countries' policies, Washington's commitment to maintaining a multilateral global economic system is questionable.

There is only one way that a new Bretton Woods could take place, and that is if we were to experience a catastrophic event comparable to World War II. After all, our basic economic system has remained essentially intact despite the oil crises of the 1970s and '80s, the end of the cold war and the Latin American and Asian financial crises of the 1990s. Our international economic institutions survived the bursting of the Internet bubble and the terrorist attacks of September 11, 2001. I suspect they will also handle the rise of China, which may turn out to be the single most disruptive event of our lifetimes. In fact, we give too little credit to the resilience of global economic institutions and to those who have created and led them.

None of this implies that the concerns that have been expressed about next week's G7 meeting or those expressed last week in Geneva and New York aren't justified, nor that the current global economic system cannot and should not be improved. We do need stronger arrangements for trade, aid and currencies. But for better or worse, it will be incremental change and not bold new visions that are likely to win the day.

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