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ECONOMIC VIEWPOINT

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In Defense of a More Balanced View of the Current International Economic Order

One cannot go to international conferences these days without hearing considerable unhappiness and even resentment about the role of the US in the world economy. Some talk of the failure of capitalism and enjoy portraying the US as the primary economic villain. Others talk of the need for a new international economic order in which the BRICs are more dominant and the multilateral institutions are radically restructured, beginning with removal of the US veto power at the IMF and World Bank. Still others, usually led by China, argue that the US dollar's role as reserve currency needs to cease, pointing to the unfairness of the unrestrained payments deficits that the US was able to run over the past decade. Without denying the necessity of serious financial regulatory reforms and the undesirability of persistent deficits, and also acknowledging that the economic power structure needs to be altered to reflect new players, these criticisms fail to take into account the realities that: a) the US has contributed strongly to global prosperity; b) there were, and indeed are, few immediate alternatives to the dollar as reserve currency; c) there were partners in crime to global imbalances in the form of unsustainable surpluses; and d) the BRICs are not yet in a position to take on the responsibilities of maintaining the open global system.

To be fair, those who decry the economic weight of the US also need to note that without the openness of US markets in past decades we would not see the success stories of Korea or China. Just imagine if the US market had been as closed to Korean and then Chinese electronics and garments as Europe was in the 1980s and 1990s. Of course, much is made of the decline of the US savings rate since the mid 1980s and rightly so; however, without the US consumption level, we would not have seen 400 million Chinese escaping poverty levels in our lifetimes. We will now be seeing a slower global growth trajectory, perhaps a healthier one admittedly as US households attempt to rebuild assets lost in the crisis, and surplus countries are unlikely to compensate for this drop in aggregate demand. And we can only hope that emerging markets will be sufficiently open to help the next generation of exporters to thrive the way they have.

Going back to the oil shocks of 1970s, financial intermediation was made possible first by US banks recycling petrodollars and then by US capital markets intermediating additional surpluses via the US dollar denominated market. Surplus countries could have lent directly to oil importing countries but they chose not to. They could have asked to have their assets denominated in SDRs, but they didn't. The US was not only the reserve currency of choice, but also the default solution in the absence of any other credible currency. That global deficits and surpluses skyrocketed was a combination of US consumers living beyond their means and Chinese producers seeking employment for millions of impoverished rural inhabitants. To complain now that the dollar is losing its value, or even worse that the US stimulus program (needed to underpin global recovery) will inflict a future tax on this massive stock of dollar denominated reserves by raising future interest rates is not a credible complaint. After all, China had other options, such as running smaller surpluses, buying Italian debt instruments, diversifying earlier or most importantly making its currency convertible and allowing it to naturally appreciate.

Let's turn now to the management of the international economic order and options both on speed and direction of change. There is little debate on the need to better reflect the new economic realities in the oversight of international financial institutions. What is not well understood in some quarters is that based on any economic set of factors, the US is underrepresented at the IMF in terms of shares. That Brazil should not have the same voting power as Belgium is equally clear and that the reforms to date have been paltry is correct. The problem in Fund and Bank boards and also in the G20 is the over-representation of the European nations. Why, for example, are all major Europeans (except for Spain) represented in the G20 as well as the EU itself? The issue of the US veto is another matter, and this should be reviewed, but let's also take a look at the track record of the BRICs who are destined to inherit major roles in the global international system that has served them fairly well.

Independent assessments of the trade regimes in Brazil, India and China reveal certain peculiarities that may require further examination. Let's begin with the protection of intellectual property in China. Global firms report that the patents and copyrights are not honored in China, putting their R&D investments at risk. Pharmaceutical companies also report infringements of their intellectual property in the Indian market. And Brazil has provided subsidies to government-favored industries through its national development banks that might not pass independent assessments. This is just to point out that if the BRICs are to be the new custodians of the international system, they may need additional time to eliminate some aspects of economic policy that will make it difficult for the next generation of low income developing countries to be as successful as they have been in accessing global markets and frontier tech-

*The views expressed here are personal and do not represent necessarily the position of either the World Bank Group or its Board of Executive Directors. Comments can be sent to *Dannyleipziger@gmail.com.*