THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

A SYMPOSIUM OF VIEWS

Does the Industrialized World's Economic and Financial Statecraft Need to Be Reinvented?

The world's post-war economic and financial institutions intended to provide platforms for global cooperation—including the International Monetary Fund and the World Bank, the Bank for International Settlements, and the regional development banks—seem to be suffering a crisis of credibility. The G-7 and G-20 also appear to be increasingly irrelevant to the workings of global financial markets.

In Europe as a result of the Greek crisis, the EU Commission, the European Central Bank, the EU Council, the EU Parliament, and the Eurogroup of finance ministers all appear to have undergone major reputational collateral damage. As a result of the IMF's participation in the Greek crisis alone, the word "troika" has for many working families sadly become synonymous with crushing austerity.

On the other side of the world, some analysts believe China's new Asian Infrastructure Investment Bank has the potential to become a serious competitor of the World Bank.

Is this claimed loss of credibility exaggerated? If not, is the damage to the industrialized world's economic and financial statecraft reparable? How can the statecraft be reinvented?

Nearly twenty international policy strategists offer their views.

The IMF's credibility has rightly suffered.

MIROSLAV SINGER
Governor, Czech National Bank

The global financial architecture, the credibility of international institutions, and austerity in some Mediterranean economies—chiefly Greece—are clearly intertwined issues reflecting a fundamental need for reform.

Credibility loss is common in economic crises. As the latest crisis abates and recovery takes hold, this problem is bound to ease. We must also keep in mind that there are international institutions which have come through the crisis with their image unscathed (the Organisation for Economic Co-operation and Development), or even enhanced (the Bank for International Settlements).

Those that have suffered, such as the International Monetary Fund and the European Union (especially the eurozone), have not done so because they prescribed austerity. Austerity is often necessary to address an economy's inability to live within its means. It has worked relatively well in Spain and Portugal, and in the case of Ireland the problem is probably over. The focus is now understandably on Greece, but the Greek economy has been in this state for years. Despite the regrettable hardship for its people, a major contraction is necessary if it is to start living in line with its structural fundamentals. If Greece wants to aim higher, its people must realize that they have to transform the way their country operates.

Still, the IMF's credibility has rightly suffered, as it has betrayed its mission of providing objective advice to Greece. Other stakeholders are correctly pointing out that the IMF was over-optimistic in its support for the first two Greek packages. Its reasons will no doubt long be debated, but its non-European stakeholders are also likely to feel disgusted for many years to come.

The European Union is another major culprit. The euro project was advertised and sold as something that would promote growth in eurozone economies and friendship and trust among its member nations. Both these claims are plainly ludicrous now. However, most of the European Union's failings in the case of Greece stem not from ignorance of the latter's rights, as often claimed by less discerning observers (and Greeks), but from the fact that the European Union and its member states have consistently treated Greece as a sovereign state capable of delivering on its side of the bargain. The eurozone is now restructuring, but the Greek tragedy should not mask the fact that quite a few steps were taken to make the eurozone more sustainable. In addition, the weaker euro will provide a boost to those economies suffering from price competition on world markets. The Greek crisis probably heralds the end of the beginning of the eurozone rather than the beginning of the end.

What should be done with the global financial architecture? First, we must recognize that it is a product of cooperative behavior among sovereigns. We should welcome such behavior, notably the recent establishment of the Asian Infrastructure Investment Bank. However, we should continue with reform of the IMF. I am proud to note that my country, alongside Austria in particular, as well as other Central European and Balkan states and Turkey, has done its fair share of the work in establishing the Turkish constituency. More must be done by other European countries and the United States to realign the IMF's power structure to reflect current world realities. As for Europe, it is simultaneously hitting the boundaries of EU integration and facing a need for integration in the eurozone. Recognition of this might result in an optimistic scenario of a more economically and culturally homogeneous, and possibly smaller, eurozone that is more attractive to potential entrants, combined with a European Union pursuing integration in areas traditionally seen as worthwhile, such as security and infrastructure.

Economy takes command. This is the emerging reality in the world.

CHONG-PIN LIN
Former Deputy Defense Minister, Taiwan, and Professor, National Defense University

Economy takes command. Though not yet obvious, this is the emerging reality in the world. Since the millennium, economic interdependence among nations has reached a magnitude unprecedented in human history. Several implications follow.

First, the military tool has become inhibitingly costly and increasingly counterproductive among major powers. In the new century, when hitting a rival, one feels the pain oneself, and stabbing him, one bleeds. Second, non-bloody tools in international relations become more viable than bloody ones. Among the former, economy has risen in importance. Third, a clash between a rising power and an established power is no longer inevitable. The Thucydides trap loses its validity. Fourth, cooperation will gradually top contention for the long-term self-interest of each nation. Fifth, wars will occur within one nation, between unequal powers, but no longer among major powers.

In short, among major powers, an indirect approach in statecraft wins and a direct and confrontational approach loses.

Failure to heed these new trends has led to recent geostrategic setbacks for Washington as it has so far predicated its global strategy on the primacy of its military force, and on maintenance of its supremacy at all costs. Washington's frustration during the emergence of the Asian Infrastructure Investment Bank devised by Beijing was a case in point. In March 2015, Britain betrayed its most trusted ally, the United States, by joining the AIIB—the integrity and intention of which Washington had questioned—taking other American allies along with it like falling dominoes.

In December 2013, British Prime Minister David Cameron led the historically largest overseas trade mission to Beijing and announced, "Britain will act as China's strongest advocate in the West." By then, China had invested more in his country during the previous eighteen months than it had in the previous thirty years. In March 2015, Cameron merely lived up to his words which resulted from Beijing's accelerated economic endeavor targeted at London.

China had applied similar economic tactics to woo other U.S. allies that ended up joining the AIIB—Germany, France, Italy, Australia, and South Korea.

Beijing has observed the adage of Sun Tzu that "winning without fighting" is the best way to achieve victory. China's grand strategy, therefore, is dominating East Asia or even Eurasia without war but with "extra-military instruments" such as economy, culture, diplomacy, and media. If Washington continues to follow the teaching of Clausewitz that "war is an act of violence pushed to its utmost bounds," it may become increasingly reactionary to challenges of unexpected nature.

Washington's long inaction over reform of the inadequate World Bank actually provided Beijing both the moral and the practical justification to establish the AIIB. Yet when Chinese President Xi Jinping first announced the formation of the bank in October 2013, Washington paid scant attention. In contrast, Britain's Chancellor of Exchequer George Osborne rushed to Beijing within two weeks.

In mid-July this year, World Bank President Jim Yong Kim visited Beijing and talked with AIIB Secretary General Jin Liqun to explore options for cooperation. This should be the way to go in the future.

The financial crisis actually paved the way for improved cooperation.

EWALD NOWOTNY
Governor, Oesterreichische Nationalbank

The period after World War II was characterized by an enormous acceleration in economic growth, leading to a vast increase in prosperity and wealth in many countries around the world. This remarkable "growth miracle" was initially triggered by reconstruction efforts and subsequently increasingly fueled by the deepening of cross-border trade and direct investment. Neither reconstruction nor increased trade and investment, however, would have been possible without a tremendous increase in international institutionalized cooperation. Our contemporary institutional structure thus has to be understood as a legacy of this development.

The Bretton Woods institutions, that is, the World Bank and the International Monetary Fund, are exemplary for these developments. While the World Bank has aimed at fighting poverty and assisting less-developed countries in their efforts to improve standards of living, the IMF has supported the balanced expansion of world trade and the stability of exchange rates. Even after the paradigm shift toward floating exchange rates, the Fund has retained a stabilizing and important global role.

After a bumpy road in the 1970s, the world economy eventually entered the so-called Great Moderation, a period of strong economic growth accompanied by stable inflation rates starting in the mid-1980s that even tempted some to the proposition that economic policy had succeeded, as "its central problem of depression prevention has been solved for all practical purposes." After the experience of the global financial crisis and the subsequent European debt crisis, however, most economists would not share this overly optimistic assessment anymore.

Due to its unprecedented severity, the financial crisis inevitably resulted in a loss of confidence in economic institutions around the world. Nevertheless, we must not forget that various international cooperation initiatives—both at the European and at the global level—have been indispensable in avoiding an economic and social catastrophe along the lines of the Great Depression. Nevertheless, the crisis of trust indeed necessitates a reinvention of international institutions to adapt themselves to the new circumstances of the twenty-first century.

One of the most important challenges is the adjustment to the new international economic order that will be characterized by a much higher degree of multipolarity, not least due to the remarkable catching-up process of many emerging economies that was facilitated by the success of international cooperation. The main "economic superpowers" will eventually include the United States and Europe, as well as China, along with some other major powers including Japan and the remaining BRICS countries. This necessitates a corresponding adjustment in the governing structure of major institutions that already has been partly reflected in the establishment of new informal institutions (such as the G-20) and new policy initiatives, such as China's successful efforts to create the Asian Infrastructure Investment Bank.

This development should be regarded as an invigorating opportunity to reinvent international cooperation and to deepen its regional nexus, rather than as a threat. The emerging world has gained importance in recent decades both in terms of population size and its rapidly rising share in the world's GDP. The increased multipolarity both within Europe as well as at the global level certainly constitutes a major challenge for the functioning of future international cooperation. But at the same time, it can also be seen as a chance that countries move further together and increase their collaboration in global issues. The most important issue will be to seize the opportunity of the rise of such institutions to deepen international cooperation and to rebuild and enhance transnational trust.

In fact, one of the strengths of international political and economic institutions in the past was their successful adaption to new global conditions—for instance, after the breakdown of the Bretton Woods system. From that perspective, I'm quite optimistic that the global crisis experience has brought us even closer together, paving the way for an improved framework for international cooperation in the twenty-first century.

Our international architecture is limited because of our knowledge.

JEFFREY E. GARTEN
Dean Emeritus, Yale School of Management, former Undersecretary for International Trade, U.S. Department of Commerce, and author,* From Silk to Silicon: The Story of Globalization Through Ten Extraordinary Lives *(forthcoming)

As banking and capital market operations grow in size and complexity, no one could possibly feel that the institutional architecture for overseeing them is up to the task. This conclusion is based in part on some seventy-five interviews I conducted over the last two years with leaders from every part of the global monetary and financial system. Just for starters: No one really manages the distribution of surpluses and deficits that was one cause of the 2008 global financial crisis. No one can add up the pieces of financial reform to assess whether in another crisis the world will experience a liquidity shortage. No one knows whether the sum total of regulations is leading to significant national compartmentalization of global finance, with implications for productivity of capital. No one believes that the international process for sovereign debt restructuring is anything but dysfunctional. No one is up to developing long-term instruments to finance the enormous capital requirements inherent in massive infrastructure needs, including environmental retrofitting and technology, in the face of growing short-termism in capital markets. No one has an overview of all the technological innovations that give way to everything from flash trading to new payments systems.

There are more such challenges, of course. To be sure, envisioning a reenergized system, and the institutional foundation for it, is a Herculean task, to say the least. But a start could be made if the G-20 organized a wide range of officials, together with private economists, political scientists, and historians, to present a few visions of alternative global monetary and financial systems of, say, 2025, that could be an improvement over what we now have. This couldn't be definitive because, as we all know, market events and unpredictable geopolitics will drive everything. Still, a discussion of what will be needed, where the gaps are, and how they could be bridged could help shape the environment in which decisions will be made.

There is no alternative to cooperative multilateralism.

JÖRG ASMUSSEN
State Secretary, Federal Ministry of Labour and Social Affairs, Germany

In analyzing the situation and drafting the appropriate conclusions, we should distinguish between informal groups such as the G-7 and formal institutions such as the International Monetary Fund. Informal groups can normally react to new problems more quickly than formal groups. Both groups face the need to adjust to the altered distribution of economic power in the world. After years of crisis-laden developments in some of the eurozone countries, a separate look must be focused on the European institutions.

An adjustment measure of this nature was the establishment of the G-20 as an informal group where emerging economies enjoy equal rights with the developed economies. In the meantime, the significance of the G-20 has declined. The truly important successes achieved by the first three G-20 summit meetings of heads of state and government at Washington, London, and Pittsburgh in the wake of the financial crisis triggered by Lehman Brothers have failed to be duplicated; only the Seoul Summit in 2010 and the decisions on IMF reform adopted there deserve to be highlighted. The Group's own aspiration to be the "premier forum for international economic cooperation" has not been met. Nevertheless, no competing forum has yet evolved. The G-20's agenda was excessively broad and unfocused. By contrast, the G-7 has experienced an unexpected revival. After the exclusion of Russia, the G-7 now enjoys the clear profile of a community of values based on democracy and the market economy. It is a body that can provide impulses for shaping the global economy in areas such as trade matters. In times of crisis, informal groups are usually especially effective and successful. In calmer economic times they tend to hibernate, but even in such phases good care should be given to these networks.

The best-known examples of formal post-war global institutions, such as the IMF and the World Bank, have begun to adjust to the new distribution of economic power. But the inability of the U.S. Congress, above all, to facilitate IMF reform has in the least fostered the establishment of the Asian Infrastructure Investment Bank and the BRICS Development Bank. Another important fact to be noted is that the emerging economies are not only playing a greater role in the governance of these institutions but are also assuming more financial responsibility in areas such as the stocking of trust funds.

Under the pressure of crises and continued high debt and unemployment levels, European institutions face serious credibility problems, but the various institutions are affected to differing degrees. The European Central Bank, for instance, has shown itself to be an institution that is capable of taking action in keeping with its European mandate. The Eurogroup as the forum of finance ministers from eurozone countries has largely remained an informal body and is therefore more flexible than the EU's Council of Finance Ministers, a formal European institution. The Eurogroup suffers from the fact that all of the important decisions, particularly in the case of Greece, have recently had to be taken by the heads of state and government. The Eurogroup can be strengthened by further integration of the eurozone—areas of relevance here are the completion of the banking union, gradual introduction of a fiscal union with the parallel creation of a political union, and the corresponding institutions of the eurozone that would then however be formalized, such as a Eurozone Chamber as part of the European Parliament.

Faced by global problems, there can be no credible alternative in our twenty-first century to engaging at the global level in a cooperative multilateralism. Regional institutions and newly formed institutions should serve as complements to the existing informal and formal groupings, not as substitutes.

With the exception of the BIS, all the other organizations are economically useless and explicitly anti-democratic.

BERNARD CONNOLLY
CEO, Connolly Insight, LP

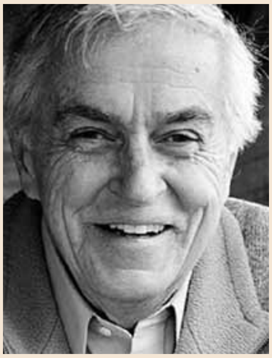
Why are international organizations said to be necessary? It is because the economy is global but there are many sovereign states, each with their own policies and laws which impinge on other countries.

But do international organizations really allow countries to coordinate their policies in a way which (in a repeated game) benefits everyone? Or are they vehicles for imposing the will of certain countries on others? Or are they vehicles for imposing the will of a global *nomenklatura* on all countries?

Before one can answer those questions about politics, one has to ask why there is now a global monetary situation more disordered than at any time since the late 1920s. The answer is that central banks have followed the wrong model, concentrating, as this year's Bank for International Settlements Annual Report put it, too much on short-term output and inflation and not enough on slower-moving financial cycles. A capitalist economy, whether national or global, requires three key rates—the anticipated rate of return on investment, the rate of time preference, and the real rate of interest—to be kept in some sort of alignment. Once those rates become as badly misaligned as they have over the past twenty years, it becomes virtually impossible for any individual economy to achieve a full equilibrium without engineering significant currency moves—and that means that it is impossible for the world as a whole to achieve equilibrium, especially when financial markets play such a massive role (see my article in the Fall 2008 issue of *TIE*). International coordination of economic policies is either pointless or powerless in such conditions, as the present currency war shows (and as attempts to deny that there is such a currency war show even more clearly).

That answers the earlier question: in current circumstances, international organizations can only be about imposing the will of some countries on others or imposing the will of a *nomenklatura* on everyone. This has been very obvious in the euro area, where there is a clash of national democratic mandates. The right answer is to dissolve or at least reconfigure the euro area. But instead—and this is significant in identifying motivation—the response of the strong has been to insist that their own national democratic mandates carry the most weight. The response of the transnational *nomenklatura* is to try to abolish national democratic mandates altogether via "more Europe"; the fact that there is no European demos makes that option even more attractive to the *nomenklatura* since it implies the creation of a totalitarian polity.

Similar tendencies are discernible in global organizations. The Bank for International Settlements is the one organization whose credibility has been strengthened, largely because it has tried to act as the intellectual conscience of the central banking community rather than as the enforcer of anyone's political will. Virtually all the others are both economically useless and explicitly antidemocratic. Both capitalism and democracy are now in mortal danger and no reconstruction of the architecture of international organizations will lessen that danger.



A bipolar cold war has been replaced by dangerous multipolar security tensions.

RICHARD D. ERB

Former Deputy Managing Director, International Monetary Fund

I am concerned that U.S. statecraft is not keeping up with rapid and well-known changes in the global political-economy. But I also believe that effective international statecraft begins at home with a strong, broad-based economy, a strong, broad-based but focused military, and a relatively stable and consistent political consensus on U.S. interests and roles in a rapidly changing global political-economy.

For example, contrary to what was anticipated after the breakup of the Soviet Union, we Americans and our political leaders seem to be having difficulties adjusting to the fact that a bipolar cold war has been replaced by dangerous multipolar security tensions. Also, security threats now include easily miniaturized weapons of mass destruction and cyber warfare. But what is the best way to respond, particularly when some of our post-World War II allies in Europe seem to be oblivious to the threats?

It is difficult for we Americans, and for our representatives in Congress, to accept the fact that today's political-economy is far more complex and dynamic than the one dominated by the United States during the two decades following World War II. It also is far more complex than during the 1970s and 1980s when the United States found it necessary to share power with other like-minded industrial countries within fora such as the G-7, the International Monetary Fund, and what is now the World Trade Organization. Unfortunately, the recent attempt by the U.S. government to persuade other governments not to join the China infrastructure bank is right out of a U.S. 1960s statecraft handbook.

A large number of developing countries that experienced rapid growth over the past two decades now seek a commensurate voice in shaping the evolution of the global political-economy. However, in contrast to the earlier groupings of industrial countries, some of these countries do not share U.S. democratic and market-based values. As a consequence, it is more difficult to build a domestic consensus on how best to work with such countries, including within the context of multilateral economic institutions as evidenced by Congress' failure to endorse voting reforms in the IMF.

The next U.S. presidential election provides an opportunity to debate America's role in the changing global political-economy.

The World Bank and IMF need reform but it may be too late to bring China back.

MARTIN NEIL BAILY
Bernard L. Schwartz Chair in Economic Policy Development and Senior Fellow and Director of the Business and Public Policy Initiative, Brookings Institution

> **Mercutio:** I am hurt. A plague a' both your
> houses! I am sped. Is he gone
> and hath nothing?
> —*Romeo and Juliet,* Act 3, scene 1, 90–92

The eurozone crisis, which includes the Greek crisis but is not restricted to it, has undermined the credibility of the EU institutions and left millions of Europeans disillusioned with the European Project. The euro was either introduced too early, or it included countries that should never have been included, or both were true. High rates of inflation left countries in the periphery uncompetitive and the constraint of a single currency removed a key adjustment mechanism. Capital flows allowed this problem to be papered over until the global financial crisis hit.

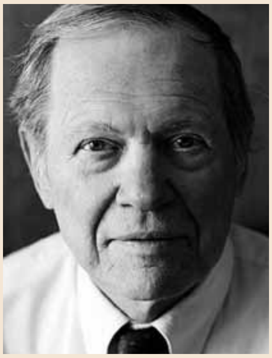
The leaders of the international institutions, the European Commission, the European Central Bank, and the International Monetary Fund, together with the governments of the stronger economies, were asked to figure out a solution and they emphasized fiscal consolidation, which they made a condition for assistance with heavy debt burdens. The eurozone as a whole has paid the price, with real GDP in the first quarter of 2015 being about 1.5 percent below its peak in the first quarter of 2008, seven years earlier, and with a current unemployment rate of 11 percent. By contrast, the sluggish U.S. recovery looks rocket-powered, with GDP 8.6 percent above its previous peak and an unemployment rate of 5.5 percent.

The burden of the euro crisis has been very unevenly distributed, with Greece facing unemployment of 25 percent and rising, Spain 23 percent, Italy 12 percent, and Ireland 9.7 percent, while German unemployment is 4.7 percent. It is not surprising that so many Europeans are unhappy with their policy leaders who moved too quickly into a currency union and then dealt with the crisis in a way that pushed countries into economic depression. The common currency has been a boon to Germany, with its $287 billion current account surplus, but the bane of the southern periphery. Greece bears considerable culpability for its own problems, having failed to collect taxes or open up an economy full of competitive restrictions, but that does not excuse the policy failures among Europe's leaders. A plague on both sides in the Greek crisis!

During the Great Moderation, it seemed that the Bretton Woods institutions were losing their usefulness because private markets could provide needed funding. The financial crisis and the global recession that followed it shattered this belief. The IMF did not foresee the crisis, nor was it a central player in dealing with the period of greatest peril from 2007 to 2009. National treasuries, the Federal Reserve, and the European Central Bank were the only institutions that had the resources and the power to deal with the bank failures, the shortage of liquidity, and the freezing up of markets. Still, the IMF became relevant again and played an important role in the euro crisis, although at the cost of sharing the unpopularity of the policy response to that crisis.

China's new Asian Infrastructure Investment Bank is the result of China's growing power and influence and the failure of the West, particularly the United States, to come to terms with this seismic shift. The Trans-Pacific Partnership trade negotiations have deliberately excluded China, the largest economy in Asia and largest trading partner in the world. Reform of the governance structure of the World Bank and the IMF has stalled with disproportionate power still held by the United States and Europe. Unsurprisingly, China has decided to exercise its influence in other ways, establishing the new Asian bank and increasing the role of the yuan in international transactions. U.S. policymakers underestimated China's strength and the willingness of other countries to cooperate with it, and the result has been to reduce the role and influence of the Bretton Woods institutions.

Can the old institutions be reinvented and made more effective? In Europe, the biggest problem is that bad decisions were made by national governments and by the international institutions (although the ECB policies have been generally good). The World Bank and IMF do need to reform their governance, but it may be too late to bring China back into the fold.



The most serious loss of credibility concerns European collective decision-making.

RICHARD N. COOPER

Maurits C. Boas Professor of International Economics, Harvard University

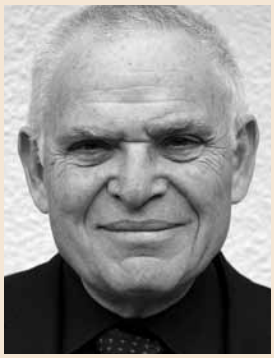
Credibility, like beauty, is in the eye of the beholder—influenced heavily these days by a ubiquitous fault-finding press commentariat. The International Monetary Fund has been criticized for years for bringing unpleasant economic news to countries in financial difficulty, like a physician pointing out that the patient cannot long survive without a significant change in behavior. That turns out to be its disagreeable but necessary role in the current international monetary system, along with lending to ease the transition. If it were to be sidelined, some other device would have to be found to replace it. A country cannot consume more than it produces plus what it can borrow from outside, and the latter depends critically on the willingness of the outsiders to lend.

The international financial institutions played an exemplary role following the 2008 financial crisis, greatly increasing available external credit when private markets dried up. The IMF played helpful roles in facilitating difficult adjustments in Iceland, Ireland, Latvia, and Portugal. It did, however, err in subordinating its analytical judgment in the case of Greece to the political preferences of European officials and politicians. The error has received appropriate attention, but it should not drown out the creditable role it played elsewhere.

The Asian Infrastructure Investment Bank should be viewed as complementary to the World Bank, just as the Asian Development Bank was when it was created in the 1960s. It may of course compete on particular projects, but then some competition is probably desirable; the World Bank has accumulated a number of barnacles, which limits what it can do. There is plenty of room for both institutions in a growing world economy, especially when capital increases to support additional World Bank loans are so difficult to get through a U.S. Congress largely indifferent to what is happening elsewhere in the world.

The most serious loss of credibility concerns European collective decision-making. The Greek problem was mishandled from the beginning, when Jean-Claude Juncker as chairman of European finance ministers announced that Greece was a European problem that Europeans could handle, when Brussels in fact had no capacity to handle the problem. Europeans dithered for over three months before engaging the IMF. Even then, they were unwilling to give the IMF, with its great experience, the primary role. Subsequent European progress has been made with hesitation and with occasional reversals. In many respects, Europe is worse off today than it was eight years ago, and the European public has noticed. They have created a macroeconomic environment that makes much more difficult the adjustments that Greece (and others) must inevitably make.

The G-20 is too big and too diverse to be an effective leading group, except in a real and palpable emergency, as in 2009. It could perhaps play a useful role in facilitating international action on climate change, after the United Nations conference in Paris fails substantively later this year.



Rent out the ECB's palaces, fire its hordes of functionaries, and let the Bundesbank get on with a Nordmark.

EDWARD N. LUTTWAK

Senior Associate, Center for Strategic and International Studies

The European institutions failed Greece long before the crisis, by conniving in its fraudulent entry into the eurozone, whereby it acquired a splendidly strong currency sustained by others' exports, making Greece non-competitive even in producing feta cheese (in 2009 I was served the Danish-made version in Athens). But much greater damage—societal damage—was done by the access to credit that euro participation allowed. In most parts of Greece, the only industry is tourism, yet most waiters, cleaners, chamber maids, barmen, and gardeners are Albanian, Romanian, Kurdish, and Pakistani immigrants, even as the official youth unemployment rate is 53.2 percent. Evidently because of the debt-fueled income that flows down to them via the salaries of a disproportionately large number of public employees, and the pensions of parents and grandparents, Greek youth from non-affluent families can still eat while refusing the jobs that actually exist—in many cases the only jobs that the victims of the Greek educational system are actually trained for.

The system failed again when the Greek crisis finally exploded in 2011, when its three-year paper was yielding 45.88 percent by December. Instead of being forced out for everyone's sake—for the Greeks themselves most of all—Greece was bribed and cajoled to stay in.

Had Greece been cut off by the European Central Bank or otherwise expelled from the eurozone, by now not only the Greek economy but also Greek society would be in full recovery. With profligate public spending clawed back by the devaluation of state salaries and pensions paid in drachmas, many more Greeks would once again enjoy the intense satisfaction of actually working—washing dishes is relaxing, I did it myself in my student days, and even toilet-cleaning is better than endless idle days.

Then the system contrived to fail a third time when the Greek people elected an anti-euro majority, whose stance was moreover reaffirmed by referendum: instead of accepting the democratic choice, the Greek government was subverted with threats and more bribes, confirming Václav Klaus's original equation of the eurozone with the Warsaw Pact, *sans* tanks but with not much more room for democracy.

Early on, much comfort was derived from reminders of the smallness of the Greek economy. Now the Greek economy is even smaller, but not in the dimensions of the reputational damage that its mishandling has inflicted on the EU Commission, the European Central Bank, the EU Council, the EU Parliament, and the Eurogroup of finance ministers. Hence, a British exit is no longer a fringe-group-only fantasy, and anti-euro parties have grown vigorously.

There is moreover the huge problem of "non-contagion," of Italy most of all. The discounted present value of Italy's feasible budget surpluses to infinity is very much less than the €2.3 trillion face value of its public debt. How much less, it is hard to say, but certainly enough to warrant at least 12 percent interest rates—or 24 percent given the Greek trauma.

But of course there is the anti-contagion machine of Mario Draghi's European Central Bank. Its free money gives Italian banks riskless profits via the effortless purchase of state bonds, driving down their yields to levels that falsely suggest the prevalence of an extreme degree of fiscal prudence. Italian state, regional, and local governments therefore continue to pay sometimes remarkably high salaries (many over €200,000 per year) to their famously non-productive or counter-productive employees. They in turn, along with pensioners and the affluent, feed unemployed youths (some 41 percent of the total), while immigrants do the work actually available. Once the societal damage is included in the calculation, contagion and Italy's exit emerge as solutions rather than problems. One indisputable fact is that the Italian economy has not grown at all since entry.

Given the systematic damage that the euro institutions inflict on the weaker economies—and France has been sliding into that category—it would be a great step forward to rent out the ECB's several palaces, fire its hordes of highly-paid functionaries, let Mario Draghi return to the elegance of the Bank of Italy, and let the frugal Bundesbank get on with a Nordmark for Germany and its smaller neighbors.

The American Century is long gone.

THOMAS FERGUSON

Senior Fellow, Roosevelt Institute, and Director of Research, Institute for New Economic Thinking

Let's begin by confessing the obvious: many of the institutions mentioned in the query—the United Nations, the World Bank, the International Monetary Fund—go back to the start of the Cold War. The Bank for International Settlements is even older—from a time when Germans were paying off debts instead of trying to collect on them. Their design hasn't changed all that much. They still principally reflect the balance of power from a bygone period, not today.

The EU problem is different. The oft-told tale that has the European Union born out of a heartwarming Franco-German-Benelux resolve to break through the hatreds and suspicions that fanned one devastating European war after another is just close enough to the truth to be seriously misleading. In fact, the contemporary European Union and especially the eurozone were reborn in the 1980s and after, at the height of neoliberalism's Brave New World. As the current Greek debacle so powerfully reminds us, the European Union today is all about commerce and business; its main institutions are really post-democratic, reflecting an ebbing of parliamentary power and the predominance of revolving doors and lobbies.

In this world, the United States remains the single most powerful country, but no longer dominates the scene. The unwillingness of American elites to pay taxes, along with a parallel attachment to pre-Keynesian austerity economics, is close to paralyzing the American state.

As other countries forge ahead in modern telecommunications, transportation, and even education, the American Century is long gone. Political forces contending for local and regional dominance now realize that no great power is eager to step in; established power arrangements are rapidly disintegrating.

There is no easy fix to this situation, which does not arise from any failure of "resolve" or nerve on the part of the United States or anyone else. The real relations of power in the economy and society are altering beyond recognition. The idea, popular among Republican presidential contenders, that it could be fixed by a big rise in military spending is delusional. That would only intensify the financial pressures. Probably the most sensible policy is to focus on rebuilding economies in sustainable ways and reviving the mechanisms of democratic control. Absent these, we will witness the quiet growth of a new system of too-big-to-fail-finance, backstopped by waves of little-heralded central bank swap lines and slowly rising arms budgets, as every country with the technological capacity to do so tries to surveille everything.

The views expressed here are Dr. Ferguson's own.

Fewer meetings, fewer institutions, higher-quality interaction.

RICHARD JERRAM
Chief Economist, Bank of Singapore

We should recognize that the rise in prosperity of emerging economies makes some of the institutions established by the developed world less relevant, or in need of reform. Depending on the organization, changes to broaden membership or increase the voice of rising economies could be part of a solution, but in some cases a more limited group could be more effective. The International Monetary Fund clearly needs to adjust, especially as the treatment of Greece gives the impression of double standards to many in Southeast Asia.

Despite its merits, the Doha Round has slowed to a halt, and it shows the problems of trying to find common ground between so many countries with contrasting economic and political systems, at different levels of development. Regional trade and investment deals are an inferior solution, but at least they can reach a conclusion. It is hard to know what can be done with the World Trade Organization. It is an organization with a very important role, but we need to find a way to make it more effective. It might be that membership has expanded too far, but that is hard to resolve.

The shift from G-7 to G-8 and back again shows the risks of expanding some structures beyond like-minded groups of countries. This illustrates a more general tension between offering membership as a means of trying to encourage a behavioral shift, with the risk that the expansion will dilute the effectiveness of the institution.

In a similar vein, we should stop pretending that the G-20 matters. It briefly served a purpose in the aftermath of the global financial crisis, but has since become pointless. The pledge to raise global growth by 2 percent at the Brisbane meeting in 2014 was embarrassing—as if there were any major unexplored opportunities for stimulus after five years of trying to revive the global economy.

There is something about the Asian Infrastructure Investment Bank that does not make sense. If it is going to be used as a tool of Chinese economic and foreign policy, which looked like the original intent, then participation by other members will be constrained. Alternatively, if it will be an objective multilateral institution, then it is hard to see China's motivation. It might be that China becomes distracted by domestic economic problems and the AIIB never makes it off the ground.

It is time to revisit the Meltzer Commission.

ALEX J. POLLOCK
Resident Fellow, American Enterprise Institute, and former President and CEO, Federal Home Loan Bank of Chicago

Expecting too much of official institutions always leads to disappointment, composed as they are of fallible human beings who cannot know the future, whose forecasts are as poor as everybody else's, and who are flying by the seat of their pants in crises like everybody else. So it is no surprise that believing that the International Monetary Fund will lead to international financial stability, or the World Bank can end poverty by making loans to corrupt governments, leads to disappointment and diminished "credibility." The problem is less their credibility than it is the credo of belief in them in the first place. No matter how many economists they hire, they cannot solve the insurmountable problem of the inadequacy of centralized knowledge, so well explained by F.A. Hayek.

Everyone knows that the original purposes of the IMF and the World Bank have ceased to exist, as has the world for which these institutions were designed. This was the post-World War II world of fixed exchange rates based on a U.S. dollar convertible to gold; a Europe in ruins from the war and needing reconstruction financing; and the widespread financial, military, and political hegemony of the United States.

All of this is gone, of course, and the IMF and World Bank bureaucracies naturally adapted. "The IMF's primary purpose," it tells us, "is to ensure the stability of the international monetary system." At this ambitious goal it has obviously not succeeded, but then nobody could. But perhaps the IMF in more modest terms could help the international monetary system survive its inevitable instabilities. The IMF continues, "The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability." This is an amazingly hubristic claim.

With Europe rebuilt and rich, the World Bank turned principally to lending at concessionary terms to the governments of developing countries. Its goals are now, it tells us, "ending extreme poverty" in the world, and "promoting shared prosperity." Financed by the taxpayers of advanced countries, with its customers mainly the government elites of developing countries, the World Bank was described by one cynic as "middle class people in rich countries making loans to rich people in poor countries."

The International Financial Institutions Advisory Commission (the "Meltzer Commission") recommended in 2000 that the IMF be simplified into an international lender of last resort, with its lending limited to the provision of short-term liquidity to solvent but illiquid governments, to reduce the cost of financial crises. It recommended that the World Bank get out of the lending business and become an international welfare authority for the coordination of grants and assistance to poorer and economically reforming countries.

These still seem like good ideas. The U.S. Congress should establish a new version of the Meltzer Commission to revisit them and report back in six months.

Global international economic organizations have gone astray.

ANDERS ÅSLUND
Senior Fellow, Atlantic Council

Global international economic organizations have gone astray. The World Trade Organization cannot agree on anything, nor can the European Union. The World Bank disburses too little money to matter. The International Monetary Fund favors fiscal stimulus rather than sound finance. What should be done?

The IMF is most easily cured, because it needs the least change. The reforms agreed in 2010 would provide it with sufficient capital and a more legitimate board and vote. The U.S. Congress needs to approve the necessary funding. The Fund itself should go back to clearer fiscal standards, as is likely to happen after the Greek debacle. Then the IMF can take back the leadership in finance that it lost to the G-20 in 2008.

Global trade policy appears stuck. The most protectionist large emerging economies, notably India and Brazil, blocked the Doha Round. The natural response of free traders is apparent: Regional and plurilateral free trade agreements, such as the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership, the International Service Agreement, and the International Technology Agreement. Hopefully, if these agreements are concluded, the big protectionists will come to their senses, leading to a revival of the WTO with its consensus decision making.

At present, the World Bank disburses a pittance, merely some $15 billion a year. A radical rethinking is needed. The World Bank needs to focus and simplify and speed up its procedures. In its current form it is neither competitive nor efficient. Until it reforms, it will be outcompeted by regional development banks, and increasingly by China-led alternatives. A rethinking of the World Bank is needed if the institution is not to disappear into oblivion.

The Greek crisis is a major embarrassment to the European Union. It is vital to draw many and the correct conclusions. To begin with, the EU institutions were right to engage, but their cure was flawed.

The problem was not austerity but its slow start. Throughout, EU decision making was slow and indecisive. Greece's initial fiscal adjustment was tiny (2 percent of GDP in 2010). Structural reforms were absent, and Greece received much too large and lenient financing. These blunders were based on the absurd idea that nothing really bad can happen in the European Union, as if risks and crises had been disinvented.

The big lesson from Greece is that in a severe fiscal crisis, a swift front-loaded fiscal adjustment is needed. Moreover, when public expenditures exceed half of GDP, public expenditures should be cut more than taxes raised. In a severe fiscal crisis, economic growth is achieved through structural reform and not through fiscal stimulus as some well-known fools have claimed.

The European Union needs to go back to fiscal common sense as in the Maastricht Treaty and promote sound structural reforms leading to economic growth, and it needs to reinforce its institutions so that they can deliver.

AIIB could become an important tool in keeping the United States "honest."

RICHARD C. KOO
Chief Economist, Nomura Research Institute, and author,* The Escape from Balance Sheet Recession and The QE Trap: A Hazardous Road for the World Economy *(2014)

Many governments and economic institutions for global cooperation are suffering from serious loss of credibility because they failed to recognize that post-2008 Western economies are all suffering from balance sheet recessions, a rare type of recession that was never taught in economics. Only U.S. policymakers recognized the disease fast enough to issue the "fiscal cliff" warnings to save the U.S. economy, but almost everyone else pursued the orthodox fiscal consolidation and fell off the cliff with devastating consequences. Many in the West have forgotten, however, that the Asian currency crisis seventeen years ago was also badly misdiagnosed by the International Monetary Fund and the U.S. Treasury with devastating consequences. The memory of this tragedy is playing no small part in prompting some Asian countries to participate in the new Asian Infrastructure Investment Bank.

In 1997, the United States and the IMF unilaterally decided that structural problems such as the lack of transparency in legal and accounting systems, the prevalence of crony capitalism, and the lack of reforms to the region's financial sectors caused the currency crisis. The "Washington consensus" at the time was that an Asian economic recovery would be impossible without reforms in all of these areas. Malaysia, which not only rejected the IMF's help, but also rejected the financial reforms sought by Washington and instead implemented capital controls, was declared a basket case by U.S. officials.

In reality, however, the crisis was triggered not by structural problems in Asian economies of which there were many, but rather by the collapse of an Asian investment bubble in the West. Western investors who did little or no homework on Asia were transfixed by the region's growth and poured huge sums of money into the region while ignoring all warnings about a bubble. I remember being brushed aside so many times by Western investors with remarks to the effect that I was pessimistic only because I was viewing things from a (broken) Japanese perspective. When the bubble burst, those ignorant investors all rushed to the door at the same time, creating a massive liquidity crisis in the process. Their ignorance was demonstrated by the fact that after the crisis, they started pointing fingers at the inadequacy of Thai bankruptcy law and Malaysian accounting standards, but their complaints only demonstrated that they did no homework before investing in those countries.

Japan's finance minister at the time, Kiichi Miyazawa, was quick to see to the heart of the matter and proposed the creation of a fund to help countries hit by the liquidity crisis. But that plan was soon quashed by the U.S. Treasury. A crisis that could have been stopped was therefore left to run its course, with severe consequences for Asia's economies. It was this painful experience that later led Asian countries to pile up massive quantities of foreign reserves so that they will never be caught with the same problem again. An indication of just how slipshod the U.S. diagnosis of structural problems was at the time can also be gleaned from the fact that Malaysia was the first to recover. Moreover, the process took only two years instead of the ten predicted by U.S. authorities.

If China had come up with a plan similar to Mr. Miyazawa's, it could have gone a long way towards stabilizing the situation, given that China is unlikely to have acceded to U.S. pressure to stay out. Although the entire non-China Asia wants the United States to stay engaged in the region, given the fiasco of 1997, some feel that healthy competition from AIIB may be what is needed to keep America honest.

The question is whether the United States has the political will to lead a reform effort.

WILLIAM BROCK

Chair, International Policy Roundtable, Center for Strategic and International Studies, former United States Trade Representative, and former U.S. Secretary of Labor

Fact: True globalization is something never experienced before, creating an extent of global interdependence never experienced before.

Fact: The world's economic, social, and political landscape has changed at a pace far beyond the industrial world's capacity for fully responsive adaptation, whether domestically in individual nations, or internationally in multilateral institutions.

Fact: Exaggerated or not, it is fair to state that virtually every international economic and financial institution has suffered some loss of credibility in recent years. Importantly, it is equally fair to note very few national governments failed to suffer from a similar erosion of confidence.

All these fully demonstrate the imperative of real institutional reform.

The agreed-upon goals must incorporate greater operational competence as well as far more effective cooperation and coordination among the participating peers. The question remains, do the leaders of the so-called industrial world have the political will, or the political capital, to unequivocally commit the resources to bring about true global institutional reform?

The constraints on any exercise of such leadership are very real, and very substantial. A technology-driven, knowledge-based, highly competitive global economy has created dislocations and heightened a greater sense of vulnerability on the part of many local populations. Leaders will face hard political choices, but choose they must.

Efforts toward more responsive, efficient, and effective international institutions can open new doors to global growth. For more than half a century, the most talented, experienced, and thoughtful leaders of the world's most economically advanced nations sought to create institutions capable of addressing the imperatives of a dramatically new and different world. Given the political challenges, they did remarkably well.

The lowering of barriers was a necessary precondition to the exchange of goods and services, and clearly this achievement has added trillions to world growth. Yet the pace has slowed measurably, amply demonstrated by halting efforts to move talks forward in the World Trade Organization. Even greater progress has proven to be very, very hard.

In sum, given the fragilities and insecurities presently affecting our global economy, the urgency of restoring growth and thereby growth-based optimism is essential.

We have to raise our sights. One possible example: Open-architecture Atlantic and Pacific FTAs will greatly accelerate economic expansion, with the hope that political and financial reforms might proceed apace.

The United States alone has the global presence and power in every sense of the word to lead. There is no alternative. The question remains whether we have the political will, or the political capital, to unequivocally commit the resources to bring about true global institutional reform.

Unless we answer that question in the affirmative, we may face an almost irresistible instinct to pull the covers over our heads in hopes that the coming storm will hit someone else. No such luck.

No need for new institutions. But definitely improve existing ones.

MARINA V.N. WHITMAN

Professor of Business Administration & Public Policy, Gerald R. Ford School of Public Policy, University of Michigan, former Member, President's Council of Economic Advisors, and former Chief Economist, General Motors

The world's post-war economic and financial institutions are indeed suffering a crisis of credibility. The distribution of voting power in the International Monetary Fund reflects the world of 1945, not 2015. The World Bank remains mired in a bureaucratic structure that blocks its ability to redefine its mission and execute it effectively. The World Trade Organization has had to settle for a tattered remnant of the Doha Round of trade negotiations, the Trade Facilitation Agreement. And the "troika" of the EU Commission, the European Central Bank, and the IMF will long taste the bitterness, not only of Greece toward its European creditors, but among the creditors themselves, engendered by the choice between a dreadful outcome and an even worse one.

The fault lies not with the design of the institutions themselves, but with the intransigence of the national governments to which they owe their existence and their ability to function. The truculence of the U.S. Congress has stymied the much-needed redistribution of voting power in the IMF, a power imbalance exacerbated by the long-standing insistence of Europe and the United States that the head of the Fund must always come from the former and of the Bank from the latter. The United States' credibility suffers also from a self-inflicted wound: its refusal to join China's infrastructure bank itself, and the totally unsuccessful effort to persuade its allies to do likewise.

The Bretton Woods institutions, as well as the others created later, were underpinned by strong support from the United States, which exercised substantial, though gradually declining, economic and financial hegemony from the end of World War II through the end of the Cold War. From about the mid-1980s until the financial crisis of 2007–2008, furthermore, much of the world experienced the "great moderation," a period of reduced economic volatility, low inflation, and relatively stable economic growth. More recently, global recovery from the 2007–2008 crisis has been uncertain and disappointing in some countries and non-existent in others.

The damage to the economic and financial statecraft practiced by the industrialized world lies not in the inadequacy of existing international institutions but in the absence of either an outward-looking and credible hegemon or a widespread underpinning of satisfactory economic growth. Together, these deficiencies have turned the practice of this statecraft into a zero-sum game, where one nation or group's gain is another's loss.

The years since the financial crisis have seen a multifaceted backlash against the policies and institutions of globalization. There has been a shift in focus from multilateral to regional trade agreements. A decline in cross-border flows of bank lending arises in part from governments' pressure on banks to lend domestically and "ring fencing" by national regulators to prevent contagion and the need for government bailouts. Restrictions on the transfer of data across borders and on access to the internet are fragmenting the distribution of information, while efforts to restore international macro-economic cooperation have given way to growing macro-imbalances and conflicts over national policies affecting currency relationships. The rise of far-right anti-immigration policies throughout continental Europe and Great Britain is currently threatening freedom of movement within the Schengen area. Finally, the dream of ever-closer union on which the European Union and the eurozone were founded has dissolved.

These developments may be partly cyclical, arising from incomplete recovery in most of the industrialized countries and amenable to amelioration by more satisfactory growth rates. But, to the extent that they are structural, the major challenge confronting the industrial nations' statecraft is not to develop new and improved international economic and financial institutions but to perform CPR on the existing ones.

Reforms yes, but no reinvention.

MAREK DABROWSKI
CASE Fellow, CASE - Center for Social and Economic Research

I do not think the industrialized world's economic and financial statecraft must be completely reinvented. However, it requires substantial reforms. Let me concentrate on the Bretton Woods institutions, especially the International Monetary Fund. Reforms of the IMF and World Bank should go in three directions.

First, increase their global political legitimacy. In many emerging market and developing countries, the Bretton Woods institutions are seen as dominated by the agenda of high-income countries and serving their economic and political interests. To change this perception, the quota system should be adjusted periodically to the increasing share of emerging market and developing economies in the world GDP, trade, and financial markets. However, the continuous failure of the U.S. Congress to ratify changes in the IMF Articles of Agreement of 2010 compromises the political legitimacy of the IMF and World Bank. It may also encourage large developing countries such as China to build alternative institutions such as the Asian Infrastructure Investment Bank, although the AIIB will compete with the Asian Development Bank rather than with the World Bank.

Appointing nationals from developing countries for the positions of IMF managing director and the World Bank president (traditionally reserved for European and U.S. candidates, respectively) and other key positions would also help those countries in building the perception of ownership of both institutions.

Second, increase the professional independence of the IMF and World Bank. Simultaneously, the professional standards in taking lending decisions, surveillance, and policy advice should be strengthened, and the staff of both Bretton Woods institutions should be effectively insulated from political pressure. Too often, the short-term political interests of major shareholders influence those decisions, leading to spectacular failures of lending programs and compromising the professional reputations of both institutions. The recent negative experience of this sort includes but is not limited to two bailout programs for Greece (2010 and 2012, the largest ever IMF lending exposure to a single country), the subsequent stand-by arrangements for Ukraine (2008, 2010, and 2014), and the stand-by arrangement for Belarus (2009).

On a policy advice and surveillance front, the continuous advocacy of fiscal stimulus since 2008 has led to building up excessive public debt in most of the developed countries.

And third, strengthen the global and multilateral agenda. Invented as the institutions in charge of monitoring global economic order and contributing to global economic development, the IMF and World Bank devote most of their resources and activity to country-specific programs, surveillance, policy advice, and so forth. In the era of globalization and increasing country interdependence, both institutions, especially the IMF, should receive a broader mandate to deal with global economic policy coordination and its conceptual foundations so badly needed in the context of developments since the 2008 crisis. It should also include stronger global and multilateral policy surveillance (in case of the IMF). ◆