PROJECT MUSE®

Introductory Remarks

Lawrence H. Summers

Brookings-Wharton Papers on Financial Services, 2000, pp. 1-9 (Article)

Published by Brookings Institution Press

DOI: <https://doi.org/10.1353/pfs.2000.0016>

➔ *For additional information about this article*

<https://muse.jhu.edu/article/26626>

Introductory Remarks

Secretary of the Treasury
LAWRENCE SUMMERS

I WANT TO ADDRESS four primary issues regarding the crucial issue of how the United States engages with the rest of the world at the dawn of this new century:

—The national security and economic case for American support for open markets around the world,

—The case for supporting global economic development more directly, including through our support for the international financial institutions,

—The generalized decline in support for global engagement in the United States and its implications for the quantity and quality of our global leadership, and

—Some of the domestic political roots for this disengagement and what can be done about them.

Let me say a few words about the broader context. This is, in many ways, a critical moment in our nation's history. America is the world's largest economy and strongest nation, with no single dominant competitor. At the same time, Americans are growing wary of global entanglements. Market ideas are in ascendancy. There is high regard for business and the rights of capital. But while successful investors are heroes, those at the bottom of the ladder still feel insecure. Internationally, the breakdown of empires and the absence of large power balances have made the world ripe for ethnic and nationalist conflicts.

I could be describing the latter part of the 1990s, but I am actually describing the late 1920s. That, too, was a time of high optimism, a time when continued peace and stability were widely foreseen, a time when America was looking inward. And yet, over the next fifteen years, the world system spiraled out of control, first economically and then politically, with the period of the Depression and the Second World War marking the darkest two decades of this century, perhaps of this millennium.

History does not repeat itself, and any historical analogy between the world of today and the world of the 1920s is flawed in many ways. But it does remind us that there have been times in our history when the reluctance of the United States to engage fully with other nations and to help manage changes in the balance of global economic power has had major consequences.

After the Second World War, a generation of postwar leaders determined that we would not make the mistakes of the late 1920s again. They helped to shape a global vision of an America committed to creating an ever-widening circle of more prosperous, more open economies. This vision enjoyed bipartisan support for the bulk of our postwar history, and it has served our country extraordinarily well.

And yet, out of all the problems we work on, this one troubles me the most. The United States is the most successful economy there has ever been, yet at this critical time at the end of the twentieth century, the fundamental choice for this country to be a force for the right kind of global integration is under threat in a way that it has not been in half a century.

The threat does not spring from a single party or agenda, although partisanship and particular interests have their role. The threat does not clothe itself in the language of protection or nationalistic retreat, although these surely have their proponents. It does not come in a single battle that will be won or lost, although some of the decisions that we make in coming days will be very important to the long-term result.

The risk we face at this crucial moment in our history is more diffuse than any of these, but no less dangerous. It is the risk of what one might call malign neglect of our global standing, the risk that, little by little, for countless reasons, for countless rationales, we will wear away at our capacity to lead the world in a direction that will support our deepest long-term national interests and values.

Let me address the economic part of this argument. The first crucial part of what we have done for fifty years and need to continue doing is to be a

vigorous proponent of support for open-markets policies. The crucial link between closer economic integration and our national security is this: We are much less likely as a nation to be drawn into conflict if nations of the world are strong, confident, and forging closer connections than if they are financially unstable and disconnected. Trade promotes prosperity, and by promoting prosperity, it promotes peace.

If you look at the history of the world's conflicts, a surprisingly high fraction have their roots in economic issues, whether those economic issues are poor economic performance that is a breeding ground for hostile nationalism or whether those conflicts have their roots in rising economic power that feels constrained by closed markets abroad. Think about the roots of World War I in German economic expansion and the barriers it encountered and the roots of the Second World War in the Pacific.

There may never have been so radical a change in the balance of global economic power as there has been in the emerging markets of the world, particularly in Asia, in the past twenty-five years. That the change has taken place without major conflict is in no small part a tribute to increased integration of the world's economies and support for cooperative institutions to cement that integration.

By supporting liberalization in Asia, we have invested in our future security and in the spread of our core values. Examples such as Korea, Taiwan, and Argentina illustrate that economic development and openness bring democratization in their wake. There is no better way to spur this process than by integrating these economies into the global marketplace.

Even if there were no political and security case for our support for open markets, there would be the basic economic argument that openness makes us richer and raises our standards of living. Think about this slightly academic analogy, which is not original. Imagine a country whose harbors are filled with rocks, a special kind of rock that blocks any ship carrying products from coming in. And imagine a proposal to remove the rocks from the harbors. Would it be a good thing?

Many people would say yes. They would say that citizens would have a wider choice of goods at lower prices. They would say that producers would have a wider choice of inputs at lower costs, making them more competitive and able to pay higher wages. They would say that greater competition would spur productivity, would expand capacity, would reduce inflation, and would reduce capital costs. To be sure, the removal of these rocks would bring about changes in the economy. But every day, in

every way, our market economy, through changes in technology, communications, and transportation, is removing natural barriers and making communication and trade much easier.

Should we work to remove man-made barriers to trade in the same way that we work to remove natural barriers to trade? I would suggest that the answer is obviously yes. Indeed, the analogy of removing rocks from our harbors understates in a major way the case for more open markets, because no one is proposing or debating that the United States should simply unilaterally reduce its trade barriers. We are proposing that the United States be engaged in an active program of being prepared to remove what few rocks remain in our harbors in return for other countries removing the far larger impediments to trade that they have maintained.

To take just one example, the tariff reductions achieved in the North American Free Trade Agreement (NAFTA) with Mexico were five times as large in Mexico as in the United States. In other words, an open-markets approach of the kind that is considered in the trade agreements that are on the agenda today and that is contemplated for the future is not just good economic policy or just good security policy; it is good policy even from a mercantilist's standpoint. And it is particularly advantageous for the United States, because of our strategic position, because of the diversity of our population, and because of the size and strength of our economy. We stand at the hub of the world trading system. And the bigger that world trading system is, the more open it is, the more benefit we will derive from our position at the hub.

There are crucial issues in balancing open markets and in balancing cooperation in trade with cooperation in other areas. An open-markets approach should not be used to justify creating a world in which only mobile factors benefit and in which they benefit at the expense of factors of production—what noneconomists would call people. That would be wrong. Whatever the broad imperative, it cannot be right that the richest country in the world, the richest country that there has ever been, is unable to provide preferential access to its markets to countries in Africa, where 500 million people live, nearly half on incomes of less than \$1 a day. That is why the African Growth and Opportunity Act, which has strong supporters on both sides of the congressional aisle, is so crucial. We hoped it would pass last year. It needs to pass this year.

What is true in Africa is also true much closer to home in the Caribbean. NAFTA was a very important step, but it hurt some of our

neighbors who did not benefit from the preferences that were provided to Mexican goods. The right trade preferences for the Caribbean, as reflected in the stronger version of the Caribbean Basin Initiative now before Congress, would help to make the Caribbean economies much stronger and our economy safer.

These are but components of the trade agenda that we as a nation will need to pursue going forward if we are to realize the full benefits of the global economy.

The second broad area of our international economic engagement is sustained support for the work of the international institutions. We always and rightly tend to respond to and focus on problems that are pinpointed on a map and described on the front pages of newspapers in places such as Bosnia or Kosovo or East Timor. We focus too little on the actions that can help to prevent such problems from occurring in the future. That is why our support for global institutions, our support for open markets, and our support for policy reform are so important. Ten years ago, when the Berlin Wall came tumbling down, the U.S. defense budget was \$107 billion higher in today's dollars than it is today. That dividend has come to us as a nation as a consequence of having won the cold war. There is room for debate about how much of that dividend should be invested in the forward defense of U.S. interests through support for economic development around the world. Few people would say that all of that \$107 billion dividend should be invested in the forward defense of U.S. interests through economic development policies.

With regard to America's broad national interests—in security, in the economic opportunities that the developing world presents, in the global problems, whether AIDS or global warming, that increasingly impinge in a shrinking world—it is difficult to make the case that the right amount of that \$107 billion dividend to invest in our future is negative \$7 billion. And yet that is what is proposed in the foreign operations bill that the president vetoed just last week. Let me repeat. Of the \$107 billion, not one penny is being transferred to nonmilitary pursuit of our national objectives. And, indeed, the cuts that are proposed in that bill are 35 percent below the budget that President Bush proposed in this area in 1991.

Indeed, at a time of lower military costs—and those will fluctuate with the passage of time as security needs change—there should be a transfer to the nonmilitary components of our foreign policy budget. One would, at a minimum, hope that the cuts in the nonmilitary foreign operations budget

would not exceed the savings that we have realized in the military area. And yet that is what has taken place.

Let me highlight two areas that are particularly important to the Treasury Department. Every dollar that we contribute to the multilateral development banks leverages more than \$45 in official lending, because the institutions are themselves leveraged and because American contributions leverage support from other countries. These contributions are, I believe, the most effective tools we have for investing in the markets of tomorrow.

Not so long ago, in the early 1990s, the U.S. annual commitment to the international financial institutions was \$1.9 billion. Today that commitment has been cut to \$1.2 billion, and even this obligation is far from being met in the currently proposed bill. Not so long ago, the U.S. arrears to these institutions had grown to \$1.5 billion. Today that debt has been reduced to \$335 million. And yet, unless something is done to reverse this process, our arrears next year will rise to more than \$665 million.

It also is essential that we recognize financial reality and be prepared to write off debts that will never be paid. Recognizing that bad debt is bad is sound financial practice. It is also a moral imperative at a time when a new generation of African leaders is trying to throw off the legacies of the cold war and open up their economies. That is what the Heavily Indebted Poor Countries Initiative is all about. It will not write off debts of countries that are not working to reform. It will help to build future markets in countries that are committed to helping themselves.

At a time when the wars that the world faces are more likely to be borne of ethnic divisions and poor governance within countries than ideological power struggles between them, and when conflicts have killed more people in Africa than in every other region combined, investing a tiny fraction of our budget in programs that could help these countries to build a better future is not an investment that a \$9 trillion economy should find difficult to make.

Let me be clear about what I am saying and what I am not saying. There is ample room for differences of opinion about the best ways to promote development through the international financial institutions, the best ways to promote a more open global trading system that benefits American workers, and the best ways to make future conflicts less likely. It is wrong to demonize those with whom one disagrees on these issues as being

against an internationally engaged America. There is a broad center that should be able to agree that the United States has a very great stake and that we should be playing a leading role in the international community's search for solutions to these problems.

I have spoken of the aspects in which we at the Treasury Department are most involved. But a generalized domestic distrust of global involvement shows up in other ways: invisible rejections of multilateral policies and institutions, including the widespread opposition we have seen to the World Trade Organization; the sixty-plus times that the United States has imposed unilateral economic sanctions since 1993; and, of particularly great significance, the failure to pay our dues to the United Nations, which may soon cause us to lose our vote in the General Assembly.

This reluctance to engage with the world has yet another corrosive impact. It may degrade not just the quantity but also the quality of our international engagement. It may do so because, in an America that is increasingly reluctant to engage internationally, the price of agreements to be involved internationally is an increasing tendency to adopt measures that placate crucial domestic constituencies at the expense of broader international interests. In each particular instance, we must always ensure that core American interests and values are protected. We must also remember that the stock of global goodwill is not infinite. When we choose to deplete it in a given instance, we must always take into account the consequences for the next time we need that goodwill.

I have tried to reflect on why the security and economic benefits of a globally engaged America are so great. If I am right in judging those benefits, why is it so difficult to make this case for open internationalist policies in a broad, public way? Three reasons stand out in my mind as to why the domestic political environment is so difficult.

First, and probably most relevant to trade, is the natural tendency to internalize good news and externalize bad news. How many people have ever said, "Let me do it the other way." Many, many people have said on many occasions that they lost their job because a plant moved abroad or because the United States was open to imports. How many people who were doing a mediocre job at a mediocre company but got promoted because of a surge in export demand say, "Thank God for exports that created this opportunity for me?" Precious few. The natural tendency to internalize good news and externalize bad news means that the political

debate will always see the costs of openness more clearly than it will see the benefits. It is not clear how this can be addressed except through the task of education and explanation.

Second, we have a hard time making a compelling case for global integration because the compelling geopolitical rationale that the cold war provided is no more. Historians have written at length about the oscillations of the United States between isolationism and global engagement. It greatly simplifies but probably does not distort that work to say that our global engagements typically have been in response to a dire and salient threat. As someone once put it, "In a democracy, fear does the work of reason." Although today's threats of rising disorder and impoverishment overseas do not have the urgency and salience that the threats of an earlier time had, they may be no less real. The example of the 1920s reminds us that our security choices and our economic choices at times of prosperity and peace may be as consequential as our choices at other times.

Third, it is difficult to make this case because trade, international integration, and globalization tend to become the lens through which we project all kinds of concerns about a changing world. Whether the root cause is new technology or deregulation, all of the economic insecurities that this new economy can produce tend to come together when the subject is trade. That is why it is so critical that a component of any strategy to support international engagement in the United States be that we work to equip workers with the education and skills to manage the transition and to seize the opportunities that come with it.

Compared with that postwar period of remarkable American internationalism, we no longer face a single major threat, and we have a different political process. I doubt anyone ever conducted a focus group regarding the Marshall Plan, and I am not sure how successful it would have been if they had.

Perhaps a deeper issue is that the postwar period was also a time when opportunity and protection were being given to the American middle class. To a degree that perhaps may have been underemphasized, the G.I. Bill of Rights was an integral part of the strategy behind the Marshall Plan—just as our interstate highway system was partially the result of an effort to martial our cold war defenses. Increasingly we will need to remember the close links between supporting the economic well-being of our citizens and enjoying their support for an engaged international America.

For these reasons, the case for vigorous U.S. engagement with the world and support for open markets is probably more difficult to make than it has been at any time in the recent past. It is probably also more important to make, because the dangers of a “malign neglect” of the global economy beyond our borders have never been more real.