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The story line regarding the performance of the leading global economies is by now abundantly clear. The United States Treasury Secretary, in the recent ministerial meetings, and the OECD in its latest report, have issued an unambiguous report card: The United States and the United Kingdom have served as the engine of recovery via their robust economic performances to which China and Japan have contributed. In this group photograph, the EMU has lagged behind. Its growth has been anemic, and its participation in the global economy has been weak as well. With regard to policy, it is again mentioned that the European Central Bank (ECB) could have pursued a more proactive monetary policy aimed at reviving EMU growth.

So what else is new? In my comment this morning, I want to add to the ongoing dialogue by outlining the vigorous policies pursued by the Chinese and Japanese authorities, despite repeated complaints from the U.S. Treasury, for promoting export-led growth in their economies. These measures depart from the policy trinity, followed by the U.S., the U.K., of a flexible exchange rate (unaided by central bank intervention), free capital mobility, and a (presumed) monetary policy autonomy. The significant purchases of dollars in exchange for the Chinese renminbi and the Japanese yen by their respective authorities have kept their exchange rates low promoting export growth. In so doing, they have departed from the triple policy model of a flexible exchange rate, free capital mobility, and an independent monetary policy.

By contrast, the EMU has adopted the framework without being able or willing to pursue a growth-oriented monetary policy. In this regard, it is constrained not only by the straightjacket of the Maastricht criteria but also by structural issues (such as an inflexible labor market, high unemployment compensations and low bankruptcy rates, active trade unionism, and above all, the unresolved center-periphery relations).

China and Japan too continue battling serious structural problems. China has enormous non-performing bank loans, and faces problems of a potentially runaway economy. Japan also must clean up its banking sector and bring its serious public-debt-to-GDP ratio under control. But in the meantime, policy makers of both economies have seized the window of opportunity of intrusive exchange rate management and sustained their export-led growth. By contrast, the high benchmark interest rate (in relation to the U.S. and Japanese rates) have attracted funds into the EMU and damaged the euro's competitive advantage. Something has got to give in EMU policy making. Perhaps the Maastricht criteria will be reconsidered in 2005.

Finally, the U.S. budget deficit, running at 5 percent of GDP (significantly financed by Chinese and Japanese dollar earnings) and spilling into the current account deficit, must be brought down. From the U.S. Treasury Secretary to the Chairman of the Federal Reserve, the concern on this issue is sufficiently reassuring. As Herbert Simon, one of the leading American policy gurus, once said when asked about this problem: "If a thing cannot go on forever, it will stop."<sup>1</sup>

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<sup>1</sup> Ben Stein, "The Tale of the Toaster, or How Trade Deficits Are Good," *New York Times*, April 25, 2004, p.BU 3.