

GLOBAL ECONOMY

RESTORE AMERICA'S GLOBAL ECONOMIC LEADERSHIP

Background

With financial systems around the world ravaged by the global economic crisis, economic aftershocks are likely to reverberate through the end of, and perhaps beyond, 2009. Even though the crisis originated in the United States, the world is greeting the Obama presidency with an outpouring of goodwill and hope. While grappling with enormous challenges in getting the U.S. economy back on its feet and fixing the financial system, the Obama administration has a singular international opportunity: America can reclaim its leadership role in the world economy—leading by example and embracing multilateralism.

Recommendations

The Obama administration should take the following steps to begin restoring U.S. economic leadership in the global economy.

- As the administration considers redesigning financial regulation, the U.S. should use the Bank for International Settlements and the International Monetary Fund as forums to evaluate and discuss regulatory best practices. The U.S. should push to broaden the membership of the Financial Stability Forum to include the major emerging market economies, as proposed in the recent G-20 communiqué.
- Offer guidance and technical assistance to middle- and low-income countries on basic aspects of financial development.
- Take bold steps to reinvigorate global trade talks.
- Utilize the Strategic Economic Dialogue with China to address common challenges. Do not focus on the exchange rate between the U.S. dollar and the Chinese renminbi or the U.S.-China bilateral trade imbalance. Instead, focus on how a flexible Chinese exchange rate would help them achieve their own key priorities, including independent monetary policy and financial sector reforms. Begin similar dialogues with other pivotal countries, such as India.
- Once the U.S. economy starts to recover, move to bring government finances into balance over the medium term.

- To strengthen the IMF's credibility, use the IMF to evaluate U.S. financial and macroeconomic policies. Push for reforms of the IMF's governance structure to enhance the representation of large emerging markets and increase the IMF's capital base.

Key Facts

- Economic unilateralism is no longer a viable strategy. The world has become so interconnected—through flows of goods, capital and people—that every major country's economic policies have worldwide effects.
- Redesign of financial regulation must reflect the reality that financial institutions now have global reach yet it is unclear whether any international agency can effectively coordinate cross-border regulation.
- Creative monetary and fiscal policies are now essential to stabilize the U.S. economy. Once that is accomplished, government finances will have to be repaired to bring down the budget deficit and public debt to avoid burdening future generations and to meet future demands on public finances.

Brookings Experts

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Required Reading

[“The Future of Financial Regulation”](#) by Eswar Prasad in the report [“The G-20 Financial Summit: Seven Issues at Stake”](#) published by the Global Economy and Development program at the Brookings Institution, November 2008.

[“Top 10 Global Economic Challenges Facing America's 44th President,”](#) a report published by the Global Economy and Development program at the Brookings Institution, October 2008.

[“Memo to the President: Rebuild Financial Institutions and Confidence.”](#) by Martin Baily of the Brookings Institution, December 11, 2008.