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Jim Hoagland: Clock ticks on looming financial disaster

Jim Hoagland

For an American to make a British audience feel good about the year 1776 is quite a feat. But Alan Greenspan did it recently:

He recalled to his listeners that Adam Smith invented modern economics in that year of intellectual as well as Colonial revolution.

"In the broad sweep of history, it is ideas that matter. Indeed, the world is ruled by little else," the Federal Reserve chairman said in a Feb. 6 memorial lecture delivered in Kirkcaldy, Scotland, Smith's birthplace.

"Emperors and armies come and go; but unless they leave new ideas in their wake, they are of passing historic consequence."

Greenspan's speech, well worth a click on www.federalreserve.gov, argues that Smith's brilliantly framed analysis of human nature and markets still applies in the era of globalization and still explains how nations accumulate and disperse wealth:

"It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest," Smith wrote. The individual is "led by an invisible hand" to promote the public good, "which was no part of his intention."

Ideally, nations also create a greater good by anchoring policies in enlightened self-interest. That seemed to be taking place in the 1990s, for example.

But the shocks the international system has received since Sept. 11, 2001, suggest we have been knocked off Smith's rational trajectory at least temporarily. Many world leaders are stubbornly refusing to address mounting imbalances among resources, obligations and aspirations.

It is not just Smith's famous hand that is invisible these days. So are the solutions that policy-makers need to devise and implement to deal with an era of national self-interest run amok.

Things have come to this previously unimaginable question: Where are the economists when we need them?

Can economists do what nuclear scientists did during the Cold War with the magazine-cover clock ticking toward doomsday? Is it close enough to 5 minutes before financial midnight to justify that kind of dramatization for the public by the experts?

Even if we are a half-hour away, isn't that the time to look at a rickety global financial superstructure that is being shaken by a new energy crisis, dollar turmoil and out-of-control American public finances?

This is the real problem with President Bush's overwhelming emphasis on Social Security reform right now.

That reform is needed, but it does not address the more urgent financial problems that Americans and others face

from the rising mountains of budgetary and trade deficits.

The fragility of the U.S. economy came briefly into focus last week when South Korea's central bank said it might soon diversify its foreign exchange holdings.

The announcement ricocheted through currency and stock exchanges to knock value off the dollar and off Wall Street indexes.

A handful of Asian countries headed by China and Japan now hold nearly 70 percent of the world's foreign exchange reserves. Those same countries finance most of America's \$617 billion annual trade deficit through their purchase of dollar securities.

This is the new global balance of terror: China and Japan could bring the U.S. economy to its knees by massively selling off the dollar; but they would gravely harm themselves - and by extension Europe's major trading nations - in the process.

Search through the copious speeches and background briefings by Bush and the Europeans he visited last week for some hint of this on-edge state of affairs and you come away empty-handed. The dominant leadership mood of the day is to whistle past the graveyard.

Bush and the Europeans did not speak in public - and I sense failed to do so in private as well - of the serious conflicts of economic self-interest that underpin their foreign policy disputes over Iraq, Iran and Israel.

It's tough to be collegial while noting Continental Europe depends more for oil on the regions that Bush is pushing to democratize than does the United States and Britain and is therefore less eager to risk change.

That's old news. But Europeans and Americans are also increasingly at odds over how to handle Vladimir Putin's Russia, Europe's other great energy supplier.

For Bush, the Yukos oil scandal centers on rule-of-law and democracy concerns. For Germany's Gerhard Schroeder, managing the Yukos fallout also is about keeping his citizens warm at home and speeding along the autobahns.

The Smithian hand of economic self-interest is not so much invisible as unmentionable on these leadership tours. But while Bush was away, the clock continued ticking toward a financial calamity that needs to be highlighted, and resolutely addressed, if it is to be avoided.

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