

Working Group on Global Markets and Economic Policy

Background

For twenty-five years the United States economy has experienced an unprecedented economic boom. Economic expansions have been stronger and longer than in the past. Recessions have been shorter, shallower, and less frequent. GDP has doubled and household net worth has increased by 250 percent in real terms. Forty-seven million jobs have been created.

For the past ten years, this quarter-century boom has strengthened in important ways. Productivity growth has surged by one full percentage point per year in the United States, creating an additional \$9 trillion of goods and services that would never have existed. And the long boom has gone global with emerging market countries from Asia to Latin America to Africa also experiencing the enormous improvements in both economic growth and economic stability.

Economic policies that place greater reliance on the principles of free markets, price stability, and flexibility have been the key to these successes. Recently, however, several powerful new economic forces have begun to change the economic landscape. Each has far reaching implications for U.S. economic policy, both domestic and international. How we react to them—and in particular whether the proven policy principles prevail going forward—will determine whether the quarter century boom continues to spread and improve more people's lives or whether it stalls and stagnates.

Purpose and Initial Focus

The purpose of this Working Group is to study these recent developments, better understand their interactions, and develop specific practical policy proposals. At the start it will focus on the following developments:

- ***The mounting turbulence in financial markets—originally triggered by the sub prime mortgage crisis—and its impact on the overall economy.*** Policies are already being implemented to deal with aspects of this problem, from new regulations on mortgage originators to ex post adjustments of mortgage contracts. A wide variety of stimulus plans have been proposed. There are still unanswered questions, including why it happened and why it has spread into some markets and not others.
- ***The increasing size and use of sovereign wealth funds.*** Recent infusions of capital into major financial institutions—a fallout from the sub prime crisis—has brought the power of these funds to the front pages. Are recent proposals for transparency and diversification sufficient? Or should more be done? The infusions illustrate the close relation among the various forces listed here.

- ***The beginnings of a huge shift in international imbalances.*** A reduction in the gap between saving and investment is beginning to reduce the U.S. current account deficit. Basic economic principles are at work here, including the role of flexible exchange rates, but the adjustment means that China and other emerging market countries may have to rely more on internal consumption growth
- ***The creation of incentives to develop alternatives to traditional sources of energy and to reduce consumption.*** The increase in oil prices has been by far the most powerful incentive so far. An easing of oil prices may reduce these incentives, but the view is taking hold that national security and global climate problems call for policy actions, both domestically and internationally.
- ***Changing worldwide demographics have helped create large unfunded liabilities in government-sponsored retirement and health care plans in most countries.*** The key demographic developments are increased longevity in developed countries, low birth rates following the post World War II baby boom, and advances in health care. New GASB reporting requirements are revealing the same problems in state and local governments in the United States.

Goal, Operating Principle, and Activities

The measure of success of the Working Group will be the degree to which it actually influences domestic and international economic policy in a positive way in practice. A guiding operating principle will be to apply rigorous economic analysis with practical implementation in mind.

To achieve this success the Working Group will meet regularly and also sponsor policy workshops, visiting lectures, and occasional conferences. It will also encourage the production of books, working papers, white papers, and op-eds as well as internet postings, media appearances, and other forms of communication.