

Our *Obama's victory is a huge step forward. Now to action.* Moment in History

BY JEFFREY D. SACHS

The global recession now underway is the result not only of a financial panic, but also of more basic uncertainty about the future direction of the world economy. Consumers are pulling back from home and automobile purchases not only because they have suffered a blow to their wealth with declining stock prices and housing values, but also because they don't know where to turn. Should they risk buying a new car when gasoline prices might soar again? Will they be able to put food on the table after this year's terrifying rise in food prices?

Decisions about business investment are even starker. Businesses are reluctant to invest at a time when consumer demand is plummeting and they face unprecedented risk penalties on their borrowing costs. They are also facing huge uncertainties. What kinds of power plants will be acceptable in the future? Will they be allowed to emit carbon dioxide as in the past? Can the United States still afford a suburban lifestyle, with sprawling homes in far-flung communities that require long-distance automobile commutes?

To a large extent, economic recovery will depend on a much clearer sense of the direction of future economic change. That is largely the job of government. After the confused and misguided leadership of the Bush administration, which failed to give any clear path to energy, health, climate, and financial policies, President-elect Barack Obama will have to start charting a course that defines the American economy's future direction.

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The United States is not the only economy in this equation. We need a global vision of sustainable recovery that includes leadership from China, India, Europe, Latin America, and, yes, even Africa, long marginalized from the world economy, but very much part of it now.

There are a few clear points amidst the large uncertainties and confusions. First, the United States cannot continue borrowing from the rest of the world as it has for the past eight years. America's net exports will have to increase, meaning that the net exports of China, Japan, and other surplus countries will consequently decrease. The adjustments needed amount to a sizeable deficit-to-balance swing of around \$700 billion in the U.S. current account, or nearly 5 percent of U.S. GNP.

China's trade surplus might shrink by half of that amount (with cuts in trade surpluses also spread over other global regions), meaning a shift in Chinese GNP toward internal demand and away from net exports equal to between 5 percent and 10 percent of China's GNP. Fortunately, China is promoting a major domestic expansion.

Second, the decline in U.S. consumption should also be partly offset by a rise in U.S. investment. However, private business will not step up investment unless there is a clear policy direction for the economy. Obama has emphasized the need for a "green recovery," that is, one based on sustainable technologies, not merely on consumption spending.

The U.S. auto industry should be re-tooled for low-carbon-emission automobiles, either plug-in hybrids or pure battery-operated vehicles. Either technology will depend on a national electricity grid that uses low-emission forms of power generation, such as wind, solar, nuclear, or coal-fired

plants that capture and store the carbon-dioxide emissions. All of these technologies will require public funding alongside private investment.

Third, the U.S. recovery will not be credible unless there is also a strategy for getting the government's own finances back in order. George W. Bush's idea of economic policy was to cut taxes three times while boosting spending on war. The result is a massive budget deficit, which will expand to gargantuan proportions in the coming year (perhaps \$1 trillion) under the added weight of recession, bank bailouts, and short-term fiscal stimulus measures.

Obama will need to put forward a medium-term fiscal plan that restores government finances. This will include ending the war in Iraq, raising taxes on the rich, and also gradually phasing in new consumption taxes. The United States currently collects the lowest ratio of taxes to national income among rich nations. This will have to change.

Fourth, the world's poor regions need to be seen as investment opportunities, not as threats or places to ignore. At a time when the major infrastructure companies of the United States, Europe, and Japan will have serious excess capacity, the World Bank, the European Investment Bank, the U.S. Export-Import Bank, the African Development Bank, and other public investment funds should be financing large-scale infrastructure spending in Africa, to build roads, power plants, ports, and telecommunications systems.

So long as the credits are long term and carry a modest interest rate (say, twenty-five-year dollar loans at 5 percent per annum), the recipient countries could repay the loans out of the significant boost in incomes that would result over the course of a generation. The benefits would be extraordinary, for both Africa and the rich countries, which would be putting their businesses and skilled workers back to work. Such loans, of course, would require a major global initiative, at a time when even blue-chip companies cannot borrow overnight, much less for twenty-five years!

In typical business cycles, countries are usually left to manage the recovery largely on their own. This time we will need global cooperation. Recovery will require major shifts in trade imbalances, technologies, and public budgets.

These large-scale changes will have to be coordinated, at least informally if not tightly, among the major economies. Each should understand the basic directions of change that will be required at the national level and globally, and all nations must share in the deployment of new sustainable technologies and in the co-financing of global responsibilities, such as increased investments in African infrastructure.

We have arrived at a moment in history when cooperative global political leadership is more important than ever. Fortunately, the United States has taken a huge step forward with Obama's election. Now to action. ◆