
FROM THE FOUNDER



Statecraft in Search of a Vision

In early 1987, nine months before the stock market crashed, we began to explore the idea of this magazine. The thought was to produce a journal that would serve as a bulletin board for proposed changes to the international economic statecraft.

We were newcomers to the global economic policy world that was still heavily anchored by a tight and closed relationship between the U.S. Federal Reserve System and the Bank of England.

Yet the global financial markets were changing. The floating exchange rate system, in place since the early 1970s, was under attack. A soaring dollar against the yen in response to the economic conditions of the mid-1980s (including the collapse of inflation) was threatening to bring about an international trade war. The status quo in currency affairs was unsustainable. Meanwhile, the Bank of England had become less important in a new world where Germany and Japan had emerged as economic powerhouses.

We nevertheless remained unsure about the reception a new publication would receive in this exclusive, rarified world. So we flew to Frankfurt to seek the advice of one of the major figures in European policymaking, Bundesbank President Karl Otto Pöhl. Seeking out Pöhl's advice made sense. He had come to central banking from the field of journalism.

As we entered his office, to our surprise the head of Europe's most powerful central bank began with one question: "Would the magazine be run from Washington, London, or New York?" He was pleased when we told

him Washington, D.C. He responded: "The global financial system is too heavily influenced by the London crowd. Your publication can be helpful by bringing in new voices."

As the meeting was about to end, Pöhl said that the evolving process of defining and refining a global financial "statecraft" was so important that he, as sitting president of the Bundesbank, would agree to chair

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our publication's editorial advisory board, assuming we were interested. We were interested.

Of course, those years represented a golden era in policy coordination and cooperation. With the Cold War raging, the free world's policy leaders were bound together not only by economics but by a common set of

values that still lingered forty years after the end of World War II.

So we launched *The International Economy* precisely because we believed the global economic statecraft needed to evolve with the changing times. Indeed, less than a decade after our publication's launch, the Soviet Union dissolved and large parts of the world, led by China and India, joined the capitalist community. The statecraft could not keep up with such rapid change.

Today the statecraft is in tatters. In a world where a common set of values is a faint memory even among some members of the G-7, the Biden Administration has nevertheless rolled up its sleeves, hoping to rebuild a new and improved framework for international economic understanding and cooperation. We wish them luck. But the task will be difficult, which is why it is important to examine the past. Only by examining history do we fully appreciate the future's opportunities and pitfalls.

Which brings us to this issue's celebration of the fiftieth anniversary of the August 15, 1971, delinking of the dollar from gold, an extraordinary exercise, for good and bad, in international economic statecraft. In his new book *Three Days at Camp David: How a Secret Meeting in 1971 Transformed the Global Economy*, Jeffrey Garten paints a fascinating portrait of this important moment in global economic history, when a rare collection of gifted policy strategists and tacticians came together at a weekend at Camp David, the presidential retreat. The goal: to try to set new parameters in a world that a quarter-century after the end of World War II had become less U.S.-centric. The individuals present represented a surprising cross-section of ideological viewpoints. With some exceptions, they seemed disinterested in partisan politics. They knew they were defining nothing less than America's future relationship with the world. Most were in their forties and, as Garten notes, almost all would go on to achieve great things.

In this issue of *TIE*, a collection of thinkers—some actually involved behind the scenes at the Camp David meeting, some who worked on the creation of the Plaza and Louvre Accords, and other experts—offer their thoughts on this fiftieth anniversary milestone in general and on Jeff Garten's new book in particular.

I believe most of these thinkers would agree that the world's tattered statecraft needs to be repaired. We also need to better understand what we don't know. The recent track record is not reassuring. Policymakers missed the call on the 2008 financial crisis. Before then, they

A Troubling Question

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—D. Smick



Former Federal Reserve
Chairman **Paul Volcker**

failed to appreciate the paradoxical nature of globalization. Beginning in the mid-1990s, the world's excess savings as a result of huge current account imbalances had shifted heavily into developing world sovereign debt, particularly U.S. Treasury securities, helping drop interest rates to historic lows. Equity markets boomed, but wages failed to keep pace, contributing to a rising tide of inequality. The statecraft sadly failed to fully understand globalization, which left in its wake a fragile world of political chaos.

Now our leaders face a post-pandemic world of aging demographics, cyber warfare, cyber-based currencies, artificial intelligence, and cloud computing that are poised to redefine employment and dramatically widen the productivity gap between the world's have and have-not economies. The picture is not reassuring. Backed by impressive models, our economists seem incapable of even telling us something as fundamental as when robust asset prices are legitimate or when they represent dangerous bubbles.

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—DAVID M. SMICK

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