We have for the first time a genuinely multipolar world where no country has the power or credibility to enforce its interests. At the same time, there seems little recognition that what is in the global interest can also be in the national self-interest of a given country.
In process, you could say, “OK, we know we are not ready yet for a global reserve currency, but let’s set up a working group.” Or, since it makes little sense for the G-20 to keep referring matters for research to the Organization for Economic Cooperation and Development, which after all represents the advanced countries, it should create a think tank that also encompasses developing countries and the emerging economies.

The one case French President Nicolas Sarkozy, chairman of the G-20, will fortunately be pushing is the Commission for Economic Performance and Social Progress, which would measure not just GDP growth but also other factors, such as sustainability and social equality. This allies process with long-term vision.

**NPQ | How do you assess the current items on the agenda?**

**STIGLITZ |** If we start talking about exchange rates, we know we are going to get gridlock. Even talking about global imbalances won’t get far. This issue illustrates how the politics of the whole thing gets in the way of thinking clearly about the issues.

First, the idea was to put the limit on surpluses to 4 percent of GDP. Then it was decided to leave out the natural resource countries like Saudi Arabia. Then you quickly get down to two countries with surpluses—China and Germany. At that point, you have to ask are China and Germany really the source of global instability? I think the answer is no. To everyone outside the US this seems like a ploy to shift blame. And therefore, you get no support. The US has no credibility on this issue.

**NPQ | The indicators under discussion now concern both surpluses and deficits.**

**STIGLITZ |** Yes, but even then, at present numbers, the US is likely to be below (4 percent) on the deficit side and probably China on the surplus side. That only leaves Germany. Does anyone think Germany is the root problem of global imbalances? Of course not. It is a false issue.

The issue is systemic, but we don’t want to talk about that.

**NPQ | What is the key systemic problem from your point of view?**

**STIGLITZ |** The key systemic issue is the reserve system based on the dollar. The role of the dollar as the dominant reserve currency far exceeds the US share of the global economy. Also, the way the issue has been framed in terms of global imbalances is that China must consume more. That is wrong. The issue is how the global financial system recycles surpluses.

The world needs more investment, not less, for climate change and development. The real failure in global financial markets, in which the US has played the important role, is to take savings and allocate them in a way that is useful to society. Being centrally involved in the financial markets, US Treasury Secretary Timothy Geithner is not about to say “we failed.”
What we need is global mitigation of risk so that if China invests in Africa development or battling climate change it doesn’t have to bear all the risk.

The mainstream debate always focuses on raising consumption in China and increasing savings and investment in the US. What does that mean for two very different political systems and cultural environments to recalibrate their economic mix? How would that work?

STIGLITZ | First, I’m not sure I want China to consume more like the US. It should use its savings more socially profitably than the US has—giving money to our bankers, exploiting poor people, financing war and giving huge tax breaks to rich people.

The imbalance, as I said, has more to do with the misguided recycling of savings, not the existence of savings per se.

What we need is global mitigation of risk so that if China invests in Africa development or battling climate change it doesn’t have to bear all the risk. With reserves you don’t want to engage in risky projects, but the social needs are risky and must be backed by sovereign guarantees or climate change price guarantees or by facilities that diversify the risk and spread it around.

That is where I would put the emphasis. Over the coming years, of course, China will be increasing its spending on domestic needs like education, health and social security. But that will provide little benefit to the US economy, which is why I don’t think it is much of a solution to global imbalances.

The fact is that, unless we lift our embargo on technology exports, there is not all that much that the US produces that China wants.

The more difficult task is for the US to increase savings. Since the financial crash, household savings have increased from 0 to 6 percent. But the government has been dis-saving with deficits.

I don’t see any easy solution because the bottom line is that Americans have been living beyond their means for many years. To tell people to reduce their standard of living is not very palatable politically. We’ve been avoiding dealing with that. After all, the subtext of the bubble was that a large portion of Americans could continue spending as if their incomes had not gone down over recent decades.

Now everyone is facing the unpleasant reality of trying to live within their means.

So, while savings are increasing, they will do so slowly because Americans are in for a protracted period of deleveraging, whether that takes the form of home foreclosures or cuts in public pension benefits in the states.

That doesn’t bode well for international cooperation. When people have to cut back on their standard of living, they get nasty.

NPQ | What would be the best outcome of the next G-20 summit you can see?
The likelihood is that it will be largely the same pabulum that marked Toronto and, though a little better, Seoul. It will not be so disappointing that people will give up, but not so successful that anybody will have any faith in the G-20.

**The Middle Income Transition in China and America’s Need for Structural Change**


**MILAN** — Cooperative international economic outcomes are hard to achieve, in part because they have distributional effects across countries and across subgroups within countries. Ignoring the distributional effects in favor of focusing exclusively on efficiency, balance and stability will make it difficult to converge on cooperative policies. The distributional issues are politically salient in all countries. Economic policy makers in advanced and emerging economies need to understand and guide the structural shifts in their economies as they grow and respond to the dynamic forces domestically as well as to structural shifts in the global economy.

This capability is a crucial aspect of successful growth strategy in developing countries.

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