

E S S A Y

Those Gloating Dismal Scientists

Despite political mayhem, the world economy is doing fine. For now

Josef Joffe

LET'S COUNT OUR BLESSINGS (WE'LL GET TO THE BAD NEWS in a moment.) Economically, the world has not sparkled so brightly in years. Since 2003, the global economy has been expanding at a heartening clip—close to 5% per year, according to the International Monetary Fund, which foresees more good years to come, at least until 2010. Globalization is acting precisely as predicted—as an engine of growth that accelerates investment by leveling borders and speeds up consumption by driving down prices. These competitive pressures also bear down on costs, and so money remains cheap while (core) inflation is safely confined. If U.S. growth has slowed a bit, Japan and Euroland are no longer a drag on the global economy. More significant is the uptick in confidence. Last year, those morose Europeans called off their consumption strike, and so consumer spending is up by around 2%. That may not be very impressive by Chinese standards, but it's downright profligate when compared to the tightfistedness of past years.

What's going on here is a decoupling of the world economy from world politics, where the bad news keeps piling up like the mangled victims of terror and mayhem in Baghdad. Iran, thanks to the weakening of American power, is on a roll, and so is Syria, which less than two years ago was shown the door in Lebanon. North Korea has exploded a nuclear device, and Russia is back to its imperial ways, except that Putin is much more effective with his pipelines than was the Politburo with its tanks and missiles. Much of Africa is stuck in poverty, war and disease while Latin America is again succumbing to the false promises of populist demagoguery. Last summer's bloody melee in Lebanon, fought against a Hizballah trained and equipped by Tehran, may have been the first Israeli-Iranian war. The Taliban, supposedly crushed in 2001, is doing very nicely in Afghanistan. The war against terror resembles a game of whack-a-mole: beat down one head, and see three more creatures pop out of the other holes.

So here is the paradox of decoupling. On the one hand, Islamist terrorism has imposed a huge transaction tax on the global economy; just try to put a price tag on millions of hours wasted by passengers waiting at security, on container and cargo controls, on cumbersome border checks, on the expansion of police and intelligence personnel—not to speak of the nonmonetary

costs of civil liberties curtailed. On the other hand, globalization just gallops along. "We told you so," hard-core practitioners of the dismal science might crow. "Economics beats politics any time." The mighty dynamics of expansion seem to bear them out. So does the history of the first globalization, from 1850-1914. There were lots of small wars then: the Crimean one, the wars of German unification, a spate of long-forgotten battles over the Balkans, skirmishes from one end of Africa to another and throughout Southeast Asia. Yet international trade and investment prevailed over protectionist sentiment.

Until the big war, that is, World War I, which triggered 70 years of deglobalization—tariff walls, capital controls and autarky. Politics produces those exogenous factors economists always invoke to hedge their optimistic bets. Which is why we can't count on the decoupling effect forever.

The obvious candidate for recoupling—for something that reduces the world's economy to the miserable level of its politics—is a preventive strike against Iranian nuclear installations, with all the global repercussions that would imply. Israel might like to launch one, but cannot; the U.S. could do so, but will not, given the debilitating unfinished business in Iraq and Afghanistan. Yet even if a catastrophic war is unlikely, the world remains a dangerous place—made more dangerous by the condition of its prime power. The U.S. is today what Britain was during the first globalization: the anchor of the liberal world order. Those who rightly railed against the U.S. when it threw its weight around and treated its partners with contempt should now mull the question: Who is going to take care of the world's political business? China, Russia or the E.U.? Hardly.

Today, the problem is not an overbearing, but a weakened and demoralized America, a giant whose physical power grievously exceeds its authority and legitimacy. Even the hyperpower's rivals must wish that the U.S. would return to the politics of responsibility that the Bush Administration has so willfully ignored. Yes, the world economy is doing very nicely. But there are too many exogenous factors out there that can turn into short fuses. The best hope is for a U.S. that will again temper raw strength with trustworthiness—and which remembers that it has always done best for itself when it did good for the rest of the world. ■

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