In Brief

C. Fred Bergsten and the World Economy

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The year 2006 marked both the 25th anniversary of the Peterson Institute for International Economics and the 65th anniversary of its founding director, C. Fred Bergsten. This festschrift—prepared by Bergsten's colleagues at the Institute in celebration of these joint anniversaries—surveys broad areas of international economic policy in which the Institute and Bergsten himself have been, and remain, highly active. Chapters cover trade negotiations, exchange rate policy, sanctions, and foreign direct investment, among others, as well as the skills Bergsten has deployed to create, manage, and market a leading think tank and communicate its ideas effectively to policymakers.

The volume begins with an introduction by Michael Mussa, who reflects on Bergsten's role as an intellectual entrepreneur. I. M. (Mac) Destler and Marcus Noland then provide a broad overview of the main areas of the Institute's substantive work for the past 25 years, emphasizing a number of Bergsten's major pioneering innovations. Central to his work has been the political economy of trade liberalization, addressing not just the welfare-enhancing benefits of trade expansion but how the political system might bring about freer trade and resist new protection. The latter threat is intensified if the dollar becomes overvalued and the trade balance deteriorates, as this increases the range and depth of injury from imports. In recommending policy responses, Bergsten has consistently stressed three:

- international negotiations to reduce trade barriers, based on two of his most important innovations: the "bicycle theory," which posits that continuous forward momentum is essential to avoid protectionist backsliding, and "competitive liberalization," which holds that bilateral, regional, and global barrier reduction mutually reinforce each other to stimulate market opening;
- macroeconomic policy balance and coordination, especially the overvalued dollar as "leading indicator" of protectionism; and
- compensating the trade losers, via adjustment assistance and related domestic programs.

Gary Clyde Hufbauer and Jeffrey J. Schott present a more detailed review of Institute analyses of key trade policy issues and of Bergsten's contributions. Kimberly Ann Elliott follows with a review of the Institute's work on the use of trade sanctions for both political and economic purposes—issues on which the Institute's work by

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Hufbauer, Schott, and Elliott dominates the literature. The emphasis in this area, as in most Institute research, has been on rigorous empirical analysis to illuminate the costs as well as benefits of different policy approaches, including the option of doing nothing. Bergsten's continuing approach is that not taking action may be more costly over time if imbalances and protectionist pressures reach the breaking point than breaking some crockery with trade threats and sanctions if doing so contributes to resolving the problem.

Edward M. Graham examines policies affecting international flows of direct investment, an area in which Bergsten, as an official of the Nixon and Carter administrations, was a key pioneer. Howard Rosen winds up the section on international trade and investment with a review of US trade adjustment assistance policies, for which Bergsten was an early advocate and remains an active proponent.

The second half of the volume is on the Institute and Bergsten's contributions to international macroeconomic policy issues. Morris Goldstein provides a broad overview, and John Williamson takes up the key issue of exchange rate regimes, including his and Bergsten's long-time advocacy of target zones. Edwin M. Truman analyzes a question related to proposals for a target zone for the exchange rate of the US dollar: whether and when wide swings in the dollar's real effective exchange rate over the past three decades have conveyed important signals about the need for adjustments in economic policies. Martin Neil Baily and Robert Z. Lawrence examine the concept of competitiveness, reevaluating the analysis and recommendations of the Competitiveness Policy Council, which was created by Congress and which Bergsten chaired throughout its existence from 1991 to 1997.

On projects more directly related to developing countries, William R. Cline reviews and updates the Institute's extensive work on Third World debt, another subject on which Bergsten was an early and important contributor. Mussa then returns to the subject with which the Institute began its long list of publications: controversies concerning lending by the International Monetary Fund (IMF). Goldstein follows with a call for the IMF to reinvigorate its activities for exchange rate surveillance, with particular reference to China's extraordinary efforts to maintain a massively undervalued currency.

In the final section, C. Randall Henning offers a political science perspective on building the institutions of international economic relations and characterizes Bergsten as "without doubt the most prolific proponent of innovations in formal and informal international economic institutions of his generation." In this context, Henning reaches somewhat different conclusions from Goldstein concerning the methods and usefulness of IMF exchange rate surveillance. J. David Richardson concludes the festschrift with a plea for more effective public communication of the key ideas and results of international economic policy analysis—an endeavor in which he concludes that "no one masters this communications mix better than Fred Bergsten."

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