



GET BETTER DATA.



BY PAUL SAFFO

THE 2008 CRASH was more than the start of a recession; it represented the end of what economists James Stock and Mark Watson labeled the “Great Moderation,” a two-decade period of low business cycle volatility, moderate inflation, moderate unemployment, and steady industrial production. The Great Moderation lulled businesses into reducing their reserves and led some economists to speculate that perhaps we had moved beyond business cycles entirely. As Nobel laureate Robert Lucas proclaimed at the 2003 American Economic Association meeting, the “central problem of depression prevention has been solved, for all practical purposes.”

The crash silenced all triumphalism. The Great Moderation is now a fading memory, but the shape of the new economic order remains in doubt. A depression seems unlikely, and a return to robust global growth unlikely still, though one can find advocates for positions everywhere along the continuum from collapse to boom.

Uncertainty is the signature of this moment, and it hints at the shape of the new normal. We have entered the “Great Turbulence,” a period of high amplitudes, rapid oscillations, and scarce equilibrium. Short-cycle events will punctuate the landscape, events like May 2010’s “flash crash,” when the Dow Jones industrial average plunged—and rebounded—nearly 1,000 points within a few minutes. Once upon a time, it took months or years to recover from a crash; now, both plunge and rebound can unfold in nanoseconds.

The Great Moderation was no accident; it was the consequence of the financial institution-building that began at Bretton Woods in 1944. Determined to avoid the devastating economic shocks of the interwar period, a generation of leaders designed a framework of strong institutions, including the International Monetary Fund and World Bank, that could intervene when market forces alone could

not maintain equilibrium. It was not without controversy, but the system seemed to work, damping unpredictable economic swings. The result: the Great Moderation, a period of sunny economic weather punctuated by only the occasional storm.

Beneath the calm, though, the growing complexity of the global economy meant that over time, the magnitude and frequency of institutional interventions increased. John Maynard Keynes, the British economist whose ideas shaped the postwar economic order, himself never imagined that the powerful tools created in the Bretton Woods system would be used as frequently as they were, and by the early 1970s, more than a few economists began to wonder whether these measures were treating the symptoms of a problem and not its root cause. Perhaps the global economy was not an equilibrium system at all.



The technological revolution that began with the microprocessor accelerated this shift even as the Great Moderation was beginning. The digital technologies that hastened the fall of the Berlin Wall were also eating away at the power of the institutions in the Bretton Woods system. (Coincidentally, Tim Berners-Lee finished the original design of the World Wide Web within months of the wall’s fall.)

The diffusion of the web and consequent dot-com revolution accelerated the velocity and volume of the global economic system to the point where the Bretton Woods institutions could not keep up. In a world awash in high-speed trading and hot money, traditional institutional interventions are woefully inadequate as dampening mechanisms. Just look at Europe today.

It is tempting to conclude that giving more resources to the likes of the IMF can cure the current crisis, but the problem is larger than one of underresourced institutions unable to enact otherwise effective policy. The last century’s economic

architecture was built on the notion of the economy as an equilibrium system, but amid today's economic storms the global economy is revealing itself to be something quite different, a dynamic system in which equilibrium is an illusion. Given this reality, our institutions are as obsolete as the defenses of the Maginot Line—their policy guns are pointed in the wrong direction.

A new Bretton Woods is in our future, a moment when chastened global leaders will commit to building a new institutional order. But it will take another, larger economic crisis before the collective will to do so is found. In the meantime, we must immediately undertake another equally important task: We need to create a global economic observatory, an entity capable of collecting and digesting the data needed to truly understand the global economy in all its shifting complexity.

In theory, the IMF and World Bank already perform this task. In fact, what they collect is too narrow, too slow to get published, and their data-collection activities are subordinate to their policymaking and implementation missions. Imagine instead an institution with the analytic resources of Wall Street players, the reach of Google, and the openness of Wikipedia. Such an observatory would leverage the capacities of cyberspace to become a global (and cost-effective) clearinghouse for economic information. Its scope would extend far beyond the data collected by established entities today, for example probing deep into the world's illicit economies and exploring the market implications of rapidly spreading social media. And unlike those institutions, it would serve a purely informational role with no policy responsibilities.

Above all, this economic observatory would be open and independent, inviting the participation of crowds and encouraging the broadest possible research access to its data in the service of rethinking our global economic architecture. Funding is less of a hurdle than one might think. Such an observatory could be operated on a fraction of the 342 million-euro annual budget of the Organization for Economic Cooperation and Development. Moreover, its smaller budget would provide the flexibility required to preserve both the appearance and actuality of independence. It might even be possible to crowdsource the bulk of its budget over the Internet.

The global economy has reached such complexity and scale that it qualifies as a tectonic force alongside those of nature. If anything, we know more about weather systems and the like than we know about the global econosphere, and our weather forecasting is unquestionably better than our economic forecasting. It is time to embark on a systematic process of gathering the economic ground truth required to truly understand the global economy in all its shifting complexity. Then maybe next time we'll see it coming.

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CUT DEFENSE SPENDING.



BY BARNEY FRANK



BREAKING OUT OF the current frustratingly slow growth in the developed world requires a blend of short-term stimulus and longer-term restraint. Unfortunately, in Europe and the United States, we have been following these policies in reverse—constraining public-sector spending in the near term while doing nothing effective to prevent deficits in the future.

In the United States, cuts in public-sector spending have caused the loss of 550,000 public-sector jobs—think teachers, police, and firefighters—since January 2009, adding to the raw unemployment numbers and removing the multiplier effect that takes place when employees spend their paychecks. The result: Despite gaining private-sector jobs every month for the past 21 months as of November, we have been badly hurt by reduced public-sector spending, which has cut jobs and economic growth.

Yet my Republican colleagues have insisted on retaining all of George W. Bush's tax cuts, thus all but guaranteeing that future revenues will continue to fall far short of what is necessary to reduce U.S. debt and create the conditions for a strong recovery.