

BE TOUGH, BUT REMAIN ENGAGED

By

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When I agreed to write a column for America Economía's Anniversary Issue, I had planned to focus on Latin America's accomplishments during the last fifteen years. It was to be a cheerful and optimistic column. I wanted to say that, in spite of the challenges and difficulties that lied ahead, the future looked bright. I have been unable, however, to write the column I had planned. The images from the terrorist attacks keep coming back, again and again. And as I struggled with the column, Pablo Neruda's magnificent 1937 poem "**Explico Algunas Cosas**" came to my mind. In this poem, which is part of the longer "**España en el Corazón**," Neruda tells the reader why, in the face of war and destruction, he cannot write about beautiful things. He is unable to write "*del sueño, de las hojas/ de los grandes volcanes de su país natal.*" He can only write about horror and suffering.

But now that we have seen horror with our own eyes, we should ask, "What next?" As I write this, a strategy for dealing with the terrorists seems to be emerging. And, I think, it is largely the correct one. The people and organizations behind the attacks will be identified, found and "punished." Countries that support them will be considered accomplices and will also be held accountable. The U.S. great military power and financial resources will be devoted to the enterprise, and every effort will be made to make sure that this will not happen again. In pursuing this policy the U.S. will try to forge a very wide coalition. As Vice President Dick Cheney said, it will be a difficult, costly and long effort. But the job has to be done.

There will also be economic consequences. In the short term consumer confidence will fall, the U.S. economy will almost surely enter into a recession, and the Fed will continue to lower interest rates. Prices of oil and other commodities are likely to go up, and the dollar will lose some more ground. A military build-up will provide some demand stimulus, while some sectors such as air transport and tourism will be affected in a particularly severe way.

What is less clear, however, are the **long term** economic implications of the attacks. A particularly important question is whether the U.S. will maintain its degree of involvement in international economic affairs, or whether, on the contrary, a more inward-looking approach will emerge. A possible scenario is that politicians, and in particular members of Congress, will decide to reduce the nation's involvement in the global economy. A first likely victim of an inward

looking strategy would be the new immigration legislation being considered by the Bush administration. Frankly, I don't see the Congress passing a law that would legalize the status of millions of mostly dark skin foreigners. Under an inward-looking scenario international aid to poor and crises nations would be reduced, and there would be no appetite for enlarging NAFTA or for signing a bilateral trade agreement with Argentina, Chile or any other nation, either in Latin America or in other parts of the world.

Withdrawing from the world international arena would be a serious, mistake, however. International political stability requires a more prosperous world, where poverty and destitution are reduced significantly. And in spite of what the anti-globalization demonstrators' claim, the surest path to prosperity is faster economic growth propelled by more – and not less – international trade. But growth is not everything. Strong and effective poverty-reducing policies should accompany pro-growth programs. And it is exactly in the area of poverty reduction that the U.S. and the international community – including the World Bank – have done particularly badly. William Easterly eloquently captures this failure in his magnificent new book “The Elusive Quest for Growth” (MIT Press, 2001).

The current crisis offers a unique opportunity for the U.S. to undertake a major reformulation of its policies towards international development. Poor countries – including friendly Islamic nations – should be embraced. Aid through grants – and not through bureaucratically managed loans – should be increased, and policies that foment self-reliance and entrepreneurship should be fostered. But more importantly, the U.S. should embrace true free trade, putting an end to its own protectionist policies and persuading the Europeans to do the same. Allowing poor countries' exports – and in particular agricultural exports -- to reach advanced nations' markets will be a gigantic step towards achieving prosperity and reducing international political instability.

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