

an **American GLOBALIST**

Prakash Loungani profiles **C. Fred Bergsten**

WHAT do Woody Allen, Miles Davis, Julia Child, and C. Fred Bergsten have in common? Not an easy one. Time's up. The answer is that they are all U.S. citizens who've been awarded France's Legion of Honor for their contributions to society and global discourse. Well, the French love Woody, and they love jazz, and of course they love their food. But what is Fred Bergsten's contribution? And (yes, you can ask now) who is Bergsten?

While other recipients of the Legion of Honor are often globe-trotters, Bergsten has conducted his life's work from within the Beltway, the nickname for the highway that surrounds Washington, D.C. Here, in 1981, Bergsten founded—and still heads—probably the world's most influential think tank on international economics, the Peterson Institute. This follows a distinguished career in the U.S. government, first in the Nixon administration at the National Security Council under Henry Kissinger—who says Bergsten

taught him “everything I know about economics.” Later, Bergsten was the U.S. Treasury's top gun for international economics under President Carter during the tumultuous time of the energy crisis. He recently announced that he will step down as director of the Peterson Institute at the end of 2012.

Bergsten's life has been devoted to putting global considerations into the minds of often-parochial U.S. policymakers and to furthering global economic integration. These efforts have gained him plaudits abroad, such as the Legion of Honor from France and an honorary fellowship in the Chinese Academy of Social Sciences. He has been a fervent supporter of the euro and—because he thinks it will unleash protectionism and hurt global integration—a vehement critic of what he considers to be the undervalued renminbi. The late Michael Mussa—IMF chief economist from 1991 to 2001 and later a senior fellow at Peterson—described Bergsten as “an evangelist for the open economy.”



Evangelical roots

It is an evangelism that would have been difficult to predict from Bergsten's roots. He grew up on New York's Long Island in the suburb of Amityville (known to many Americans from the popular *Amityville Horror* book and movies) and then moved to Farmington, Missouri, which he says "is kind of like the name sounds . . . in the middle of a basically rural area." In both places, basketball competed with academics for the top spot in the young Bergsten's mind; it is a sport in which he remains active to this day.

How did this all-American experience lead to a love of international affairs? Bergsten credits a trip he took with his parents to England in the summer of 1951, when he was 10. His father, a Methodist minister, had been involved in the church's global ministries and took an exchange pastorate in England. "London was still largely bombed out," says Bergsten. There was rationing from which foreigners like his family were exempt. "So I got an introduction to a foreign environment, plus a kind of taste of repercussions still from the war . . . And I think that was really what got me started down that path."

Bergsten did his undergraduate studies at Central Methodist University in Fayette, Missouri, which both his parents had attended. In his junior year, he got "heavily into political science, history, and debate . . . anything tied to political stuff." That summer, he traveled with a group from his college to Austria and Germany. On the way over on the ship, he noticed that a seminar on international affairs was being held every day on the deck. Bergsten says he "sort of sidled up to it."

The person leading the seminar turned out to be Seth Tillman, the chief of staff of influential U.S. senator J. William Fulbright. Tillman encouraged Bergsten to cultivate his interest in international affairs by doing graduate work at Tufts University's Fletcher School of Law and Diplomacy. Tillman himself "was a Fletcher School graduate . . . and helped me get in. And from that everything then developed."

Cold War with Kissinger

In 1968, after he had graduated with a Ph.D. from the Fletcher School, the 27-year-old Bergsten was asked by Kissinger to be his economic deputy at the National Security Council. It was, he says, like being "military advisor to the Pope." The Cold War was raging, and Kissinger was absorbed by foreign policy issues and had little interest in foreign *economic* policy issues. Bergsten says Kissinger told him: "Fred, I want you to do everything in my name and never bother me."

Bergsten says the arrangement worked initially, but "then there were a number of things where I needed him and he just didn't pay attention . . . I really couldn't do my job right with him not clearing his inbox of my stuff." So Bergsten quit in mid-1971, telling Kissinger that "you do not seem to need—or deserve—the quality of advice that I am giving you." In 1973, he wrote an op-ed in *The New York Times* stating that "Henry Kissinger's record on economic issues is dismal" and that "economic issues cannot be handled by superstar solos."

Bergsten now says that he was "obviously a little miffed [with Kissinger] at the time." Kissinger and he have since

made up. Bergsten says he has a signed photograph from Kissinger that reads, "To Fred, who taught me everything I know about economics." Once when Kissinger was introducing Bergsten at an event, he joked: "[After leaving me] Fred went on to have a very distinguished career in the Carter administration, something quite difficult to have achieved."

Burning issues

The day after he was elected president in November 1976, Carter asked Bergsten to come to Georgia to brief him on the gamut of international economic issues. Bergsten was responsible for all international economic issues during the transition and was then appointed to the top international job at the U.S. Treasury.

The crisis precipitated by the sharp increase in world oil prices was uppermost in the new president's mind. In April 1977, four months into his term, Carter delivered a speech from the Oval Office—wearing a sweater and sitting by a fire to demonstrate how Americans could reduce their reliance on foreign oil—in which he declared that overcoming the energy crisis was the "moral equivalent of war."

The late Michael Mussa described Bergsten as "an evangelist for the open economy."

It turned out to be a war for which Bergsten was well prepared. In the summer of 1962, he worked at Esso International, later to become Exxon. Like the other oil companies, Esso used to take its delivery of crude petroleum in one place and send it to refineries elsewhere, generally a long way away. Bergsten said it became clear that if one company could arrange to swap deliveries of crude petroleum with another company, each could save a lot of money by minimizing the costs of sending the crude to more distant refineries.

The job of figuring out how to do so was given to the 21-year-old Bergsten. "So I would figure out that if we, Esso, took some of Shell's oil from Venezuela and sent it to our refinery next door in Curaçao and gave them some of our crude from the Middle East to send to their refinery in Africa, we'd both save a hell of a lot of money, and we would divide it up. It was a great thing and I learned a lot." This experience came in handy when the Six-Day War broke out in the Middle East in 1967. The State Department, says Bergsten, was "really worried about access to oil, and rightly so. We had no idea where the oil was coming from or where it was going to." Bergsten said he could find out. Through his old contacts at Esso and other companies, Bergsten helped the State Department gather the data, and "that was part of the defense mechanism that was then built up."

Bergsten maintained an avid interest in energy issues and "more or less predicted [the rise of] OPEC [Organization of the Petroleum Exporting Countries]." During 1970–71, the

Shah of Iran and Muammar Qaddafi, who had just taken over in Libya, “kept jacking up the price of oil to beat each other, and the effect was a big increase in world oil prices.” Bergsten says he “could see where it was going to lead.” In the mid-1970s, he published a now-famous article in *Foreign Policy* magazine titled “One, Two, Many OPECs” in which he predicted OPEC’s success and warned that cartels were coming in other primary products.

While OPEC succeeded as he had predicted, his warning that other cartels were coming has largely fallen by the wayside. In fairness to Bergsten, this is in some part because his warning—and OPEC’s success—roused policymakers in resource-importing countries into taking action to try to head off other cartels. Mussa wrote in *Fred Bergsten and the World Economy* that Bergsten is a “happy Cassandra” who, on the one hand, has a “proclivity to forecast economic calamities” but, on the other, “maintains a fundamentally optimistic outlook” that the worst can be avoided through constructive policy action.

Bergsten’s wealth of experience on energy issues—and his attitude that policy actions could make a difference—proved invaluable to President Carter, and he was later awarded the U.S. Treasury’s Exceptional Service Award. But even without the energy crisis, says Bergsten, it would have been “a hot period for international economic issues.” (See Box 1 for more on Bergsten’s stint at Treasury.)

Think tank

Bergsten’s contributions to the U.S. government would have been sufficient to ensure some enduring fame, but it is what he has done since that has cemented his legacy. In 1981, he set up a think tank, the Institute for International Economics, with the help of a substantial grant from the German Marshall Fund of the United States, an American public policy institution. Bergsten was no stranger to the world of think tanks: he had spent his years between government service at the Council on Foreign Relations and the Brookings Institution.

The institute—since renamed the Peterson Institute for International Economics (PIIE), partly in recognition of the financial support of its founding chairman of the board, Peter G. Peterson—has been described by British journalist Martin Walker as “the most influential think tank on the planet.” Success came early and often. The concept of target zones for exchange rates, as adopted in the Louvre Accord in 1987, came out of proposals developed by Bergsten and Peterson scholar John Williamson. Richard Darman, U.S. Treasury deputy secretary at the time, says that the term “reference rates” was used in the accord to make the debt to the target zone proposals a bit less obvious.

Over the years PIIE has been at the forefront both in quantifying the costs of trade protectionism and in advocating assistance for those who are hurt by trade. In 1999, the institute’s Gary Hufbauer showed that an import quota bill for steel set to pass the U.S. Senate would save fewer than 3,000 jobs at a cost to taxpayers of \$800,000 per job. Bergsten says that “every senator had that analysis in his hand on the floor . . . and every newspaper had a story on it that day. The bill was voted down. It was a prototypical application of think-tank work to a par-

ticular policy issue. We had done the underlying analysis earlier, kept the work updated, applied it to the specific issue, and put it in the hands of the people making decisions.” Three years later, the institute’s cost estimates of a trade adjustment assistance package were critical to ensuring the passage of a law that restored so-called fast track authority for the U.S. president.

Former U.S. Treasury Secretary Larry Summers says that few institutions outside the government have had as much impact on global economic thinking as the Peterson Institute. “As an American and a citizen of the world, I feel we’re lucky” to have the institute, Summers has written.

Euro booster

The adoption of the euro was a singular event in world monetary history. But most U.S. economists have been skeptical of the euro’s success. The perspective adopted by most of these economists is that of the theory of optimum currency areas—which asserts that common currencies can succeed only when certain conditions prevail, such as mobility of workers across the economic units that adopt the common currency and a system of fiscal transfers from units that are doing well to those that are faring poorly. The absence of these conditions in the countries adopting the euro led U.S. economists to predict that the economic union would founder. Harvard University’s Martin Feldstein, for instance, wrote in an influential 1997 article in *Foreign Affairs* that “the attempt to manage a mon-

Box 1

Rebalancing Acts, 1977 and 2007

While the adoption of an energy program was the “first priority” of Carter’s economic team when they took over in 1977, rebalancing global demand by reducing the size of current account balances was not far behind. Indeed, even the energy program sought to reduce the U.S. current account deficit through lower oil imports.

The United Kingdom was also running a current account deficit at the time. During the transition from President Ford to President Carter, Bergsten was lobbied by the British to reduce the cuts in public expenditures that had been agreed under the country’s IMF-backed program as one of the levers to bring down the U.K. current account deficit. Kathleen Burk and Alec Cairncross write in their book *Goodbye, Great Britain: The 1976 IMF Crisis* that “for over two hours, [U.K. representative Harold] Lever tried to convince Bergsten that Carter should somehow lighten the pressure from the Ford Treasury. Bergsten’s answer was no.”

Bergsten also nudged two countries with large current account surpluses, Japan and Germany, to stimulate their domestic economies lest it become necessary to allow their currencies to appreciate. Thirty years later, the resolution of global imbalances emerged again at the top of the policy agenda, when the IMF led an effort in 2007 through “multilateral consultations” to get agreement among a set of economies—China, the euro area, Japan, Saudi Arabia, and the United States—on policy actions to reduce their current account balances.

etary union and the subsequent development of a political union are . . . likely to lead to increased conflicts within Europe and between Europe and the United States.”

Two U.S. economists have bucked the trend. One is Nobel Prize winner Robert Mundell, paradoxically the originator of the theory of optimum currency areas. Mundell argued that monetary union would lead to economic union; that is, the conditions necessary for a successful optimum currency area would come about as a result of adoption of the euro. The other euro booster is Bergsten. He says, however, that his position results from a “political economy perspective” rather than an optimum currency area perspective. During his time in government, Bergsten had active interactions with European policymakers and became convinced that they would in the end always do what was needed to keep “the integration process moving forward.”

“Unless the U.S. and China agree, it’s hard to see anything major being done by way of economic issues.”

The recent crisis in Europe has not led Bergsten to change his mind. European policymakers “at every stage of this crisis have done enough to avoid a collapse.” Bergsten says, “Germany will pay whatever it has to pay” to save the euro because it has a geostrategic stake in European integration and because the euro has contributed to an expansion of German trade. He predicts that Europe is slowly inching toward “full economic union. And five years from now . . . they’ll have it.”

G-20 and G-2

Bergsten also sees some progress beyond the euro area in economic relations among nations. He says that a forum like the Group of 20 (G-20) advanced and more developed emerging economies was “absolutely essential for legitimacy reasons,” since emerging markets are now half the world economy and “they’re the most dynamic part. You can’t have a G-7 or G-8 [which represents only the largest advanced economies] try to run the world.” The Great Recession of 2008–09 accelerated the process of legitimizing the role of the G-20. “You couldn’t dither anymore,” says Bergsten. “You had to get the right people around the table to manage the crisis.”

Controversially, Bergsten also advocates a “G-2,” a tacit group of the United States and China. He says his proposal is based on the “simple argument that unless the U.S. and China agree, it’s hard to see anything major being done by way of economic issues.” He cites lack of progress with the Doha Round of trade negotiations and at Copenhagen on climate change, where a stalemate between the United States and China hampers progress among the broader set of nations. He also points to the stalemate on exchange rate issues: “The U.S. is hammering on currency manipulation; China has stonewalled” (see Box 2).

Randall Henning, a Peterson scholar, says that the premise behind Bergsten’s advocacy of many forums is that “coop-

Box 2

China and the bicycle theory

Peterson scholars are known for not always singing from the same songbook. But their views on China’s exchange rate are fairly harmonious: it is undervalued, they chorus. “The artificially low value of the renminbi—it is 20 to 30 percent less than what it should be—amounts to a subsidy on Chinese exports and a tariff on imports from the United States and other countries,” wrote Bergsten in an op-ed in the *The New York Times* last year. He said that the United States should launch a case against China at the World Trade Organization “for engaging in illegal competitive currency devaluation and retaliate if China does not cease this protectionist policy.”

Bergsten’s strong views reflect, in part, his famous “bicycle theory”—his belief that, like a bicycle, trade liberalization must maintain some forward momentum or it will start rolling back toward protectionism. China’s exchange rate policy “is a blatant form of protectionism,” Bergsten has written, and a threat to the multilateral trading system: “. . . a policy response to the Chinese actions by the U.S. or other countries [should] be viewed as antiprotectionist.”

eration between national governments in international economic relations, a public good, is chronically undersupplied. The main problem is not that an institutional spaghetti bowl will result from the creation of too many forums, but the failure to use enough of them.”

“A string of 50s”

At 70, Bergsten is now in the phase of life where anniversaries loom large. He is enthusiastic about commemorating these events because they help him stay connected to the people and the institutions that have shaped his life. Last year he organized the 50th reunion of his undergraduate class at Central Methodist University, and this year he is organizing the 50th reunion of his Fletcher School graduating class—and his 50th wedding anniversary. “So this is a string of 50s for me,” he says.

Bergsten remains active in policy circles and on the basketball court. He regularly presides over many of the “invitation only” events held in the large conference room, now named after him, at the Peterson Institute. Mussa once joked that though “in view of Fred’s parentage, some might think [the conference room] resembles a modern church, I believe it resembles a basketball court. Fred is a bit of a basketball fiend.” Indeed, Bergsten still plays basketball in a league where he averages 38 points a game, a performance that provokes skepticism from U.S. Treasury Secretary Timothy Geithner, also an avid basketball player. Bergsten concedes that the score is high because “the league is kind of a fun thing. But you still have to put the ball in the basket.” ■

Prakash Loungani is an Advisor in the IMF’s Research Department.