WebMemo
Published by The Heritage Foundation
No. 1686
November 1, 2007

IMF Report: U.S. Economy on Track for a Soft Landing

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Economics is the gloomy science, and the latest edition of the International Monetary Fund's (IMF's) *World Economic Outlook* is filled with caveats and cautions. That said, the overall picture it presents is of a world economy that is better understood, better managed, and on track for continued healthy growth—4.8 percent in 2008.[1] While most Americans do not look to the IMF for sound economic advice (in fact, it's becoming less and less of a place that countries go to for help[2]), this particular report deserves a serious read.

The report should lessen worries that the U.S. economy is headed for large corrections and a hard landing. The likely scenario is just the opposite: overall stability, continued moderate growth, and market-driven adjustments of economic imbalances. More central bankers and finance ministers around the world are learning that economic freedom and open economies lead to sustained growth and prosperity.

U.S. Growth Will Continue. According to the report, the U.S. current account deficit is predicted to fall in 2008 from 5.7 percent of gross domestic product (GDP) to 5.5 percent.[3] The overall real growth in the U.S. economy is predicted to be a modest but still positive 1.9 percent.[4] Inflation should moderate from 2.6 percent to 1.7 percent.[5] These figures take into account recent turmoil in the housing market and the likely ripple effects of the resulting correction.

Overall, the economic forecast is good news for Americans. The IMF foresees lower U.S. growth, but not the recession that some feared, and a process of gradual restructuring of the world economy and economic imbalances through market-driven adjustments. A soft landing is the best possible result for a U.S. economy that some feared was flying unsustainably high and fast.

Faster Growth for the Poor. The report also has good news about global inequality. Global growth in 2008 will be led by developing Asia at an 8.8 percent rate and even Africa at a robust 6.5 percent.[6] The difference between those growth rates and the still-healthy 2.2 percent predicted for the advanced economies in 2008 could significantly reduce global inequality over time, even given the large disparities in the current starting positions.

The evidence on inequality within countries is not bad either. The report's chapter on globalization and inequality, while finding modest growth in inequality within countries, concludes that "the poor are…in most cases significantly better off during the most recent phase of globalization" and that "over the past two decades, income growth has been positive for all quintiles in virtually all regions and all income groups."[7] That's true in the United States as well, with all income quintiles

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm1686.cfm

Produced by the Center for International Trade and Economics (CITE)

Published by The Heritage Foundation
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Washington, DC 20002–4999
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progressing between 1991 and 2000 and incomes of the poorest actually growing faster than those of the middle class.[8]

Significantly, the report finds little overall impact on equality from globalization. Increasing trade flows actually reduce inequality, while foreign direct investment tends to increase it, but both impacts are drowned out by the impact of technological change.[9] This result is echoed in a recent study by Stephen J. Rose of the Progressive Policy Institute, who concludes that "alarmists across the political spectrum are wrong when it comes to the theory that trade leads to a loss of middle-class jobs."[10]

Better Economic Policymaking Reduces Volatility. One last bit of good news: It seems that world central bankers and finance ministers are getting better at their jobs. This message comes through in the report's analysis of global economic volatility, which has been reduced significantly over the past two decades.[11] The classic tension between those committed to central planning and command economies and those who believe that the invisible hand of the market is always best is giving way to a better understanding of both the tools and the limits of market intervention.

Virtually all economists now accept that the market is the place where you find the most accurate truths about basic economic questions: What are the real prices of goods and services? What do consumers actually want? What are the comparative advantages of various sellers and producers?

No system of economic organization or central planning can long survive if it deviates too far from the facts of a market. At some point, markets will clear; if deviations are enforced by law or regulation for long periods, the clearing can be abrupt and disruptive. The market reveals the fundamentals of an economy—the prices of capital, goods, and labor—better than any expert.

It is true that a government can mandate different prices for such factors through law or regulation and maintain them for awhile, but there are high costs—the loss of efficiency and the misallocation of resources—that wind up hurting everyone. Such regulations were a lot easier to enforce when governments could control the flow of information to their citizens. Thanks to globalization and the steady advance of economic freedom,[12] there aren't many places left (such as North Korea) where individuals are cut off from knowledge about the real prices of goods and services, or where they lack access to multiple sources of supply to undercut government monopolies. Economic openness and transparency give individuals and economies the best chance to adjust quickly to changing markets and even unexpected shocks. The U.S. recovery following 9/11 is a perfect example. The world remains a dangerous place, and open, free economies are best able to handle those dangers.

Conclusion. In the United States, with the trade deficit falling as a share of GDP, and new evidence

1. Globalization and Inequality, World Economic Outlook October 2007, International Monetary Fund, p. 215.
2. See Brett D. Schaefer and Anthony B. Kim, "The World Needs Less IMF, Not More," The Heritage Foundation, *WebMemo* No. 1675, October 23, 2007, at *www.heritage.org/Research/InternationalOrganizations/wm1675.cfm.*
3. Globalization and Inequality, p. 233.
4. *Ibid.*, p. 215
5. *Ibid.*, p. 223
6. *Ibid.*, p. 215
7. *Ibid.*, p. 141.
8. *Ibid.*, See chart on p. 143.
9. *Ibid.*, p. 159.
10. Stephen J. Rose, "The Truth About Middle Class Jobs," Progressive Policy Institute, October 2007, p. 3.
11. *Ibid.*, Chapter 5.
12. See Tim Kane, Kim R. Holmes, and Mary Anastasia O'Grady, *2007 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2007), at *www.heritage.org/research/features/index/index.cfm.*

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contradicting the popular view that trade costs the middle class jobs, the rationale for expansions of trade adjustment programs or wage insurance is severely weakened. Policymakers should avoid protectionist measures that respond to vocal pressure groups but wind up hurting the middle class and poor consumers. Instead, Congress should continue to focus U.S. policy to support economic growth and greater U.S. competitiveness over the longer term.

For would-be doctors of the economy in both the United States and abroad, the physician's dictum to first do no harm may be the wisest advice. The current prescription—fewer trade barriers, open investment markets, improved education policies, and lower tax rates—seems to be just what the doctor ordered. The patient, at least according to the IMF, is doing just fine.

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