

Opinion **Davos**

Donald Trump's big choice at Davos

Will he reassure his audience that the US believes in strong global institutions?

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If the short run concern of those gathered in Davos is how the world will deal with the next recession, the long run one has to be the declining appeal of democratic global values © AFP

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Donald Trump will be attending this year's [World Economic Forum](#). Inevitably, attention will focus on whether the US president projects a commitment to internationalist values or reiterates his commitment to truculent nationalism in the name of making America “great again”. Attention will also focus on the question of the durability of the current [economic and market upswing](#) that has buoyed the spirits of businesses and investors around the world.

While President Trump will probably try to take credit for all the economic good news, it is unlikely that he deserves it. He is president of the US, not the whole world. And the economic surprises in the rest of the world have been more favourable than those in America. The scale of upwards revisions of growth forecasts for 2017 and 2018 is higher in Europe, Japan, China and [emerging markets](#) broadly than it is for the US. Many other stock markets have outperformed those in the US. If Mr Trump's pro-business policies were driving the global economy, one would have expected an increase in net capital flows into the US, and so a stronger dollar. In fact, the dollar has weakened significantly in the last year, despite more Federal Reserve tightening than was anticipated at the beginning of 2017.

In the 1990s and again in 2006, I remarked that “the main thing we have to fear is lack of fear itself”. Today there is an undercurrent of geopolitical concern that was not present at those times. Yet there are important similarities between the situations then and now, where households and business come to fear missing out on good things more than getting caught up in irrational exuberance. Complacency about the economy can be a self-denying prophecy when it leads to excessive valuations, lending and spending. We are surely closer to such a point than we were a year ago. Sooner or later another downturn will come, perhaps because central banks overreact to what they perceive as inflationary threats, perhaps because elevated financial markets converge to more normal levels, or perhaps because of a geopolitical shock.

The world will have much less room than usual to manoeuvre if and when recession comes. From a narrow economic perspective there will be much less room than the usual 500 basis points of space to bring down rates. There will also be much less room for fiscal expansions than there was when countries were less indebted. At the political level, the kind of agreement forged in London in 2009 between the G20 group of most developed countries to keep markets open, support international institutions and co-operate to stimulate their economies seems much more difficult today. And there is the real risk in many countries that recession will reinforce tendencies towards authoritarian nationalist politics.

If the short run concern of those gathered in Davos is how the world will deal with the next recession when it comes, the long run one has to be the declining appeal of [democratic global values](#). In countries as diverse as the US, UK, Turkey, Russia, Israel and China, it appears the governmental platform that commands the most popular support is rooted in nativism, nationalism and negativism. Populist nationalism eventually produces bad economic results, leading to more pressures for anti-establishment leadership and for extreme policies. It is far from obvious what re-equilibrates the system.

It is hard to predict whether the president will seek to reassure or provoke his audience in Davos. The president’s speech will most probably be compared with President Xi Jinping of China’s rousing defence of globalism at Davos last year. Mr Trump will be further challenged by the suspicion that his rhetoric cannot be relied on to be consistent from speech to speech, let alone to be consistent with subsequent action.

What should he say? It depends crucially on what he believes and that is far from clear. The world can accept a message that the US wants a fairer allocation of the burden of upholding the global system, that after a period of weak economic performance America needs to concentrate more efforts at home, and that it will be guided by its economic and security interests, and not the promotion of abstract values.

But such a message needs to be accompanied by clear signals that the US will strive to be a reliable and predictable partner, that it understands its interest in strong effective global institutions, and that it recognises that even self-interested nations can benefit from thoughtful diplomacy. If this is

the combination of messages that comes out of Davos, a nervous world may become a bit less nervous. That would be a very good thing for those gathered at the forum — and everyone else as well.

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