Views

EDITORIAL OPINION

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NORTH KOREA'S FOOLHARDY COURSE

The United States, South Korea, Japan, China and Russia have to stay focused on what's most important: ending North Korea's nuclear weapons program.

For weeks, North Korea has been talking about plans to launch a rocket sometime between April 4 and 8. Whether it intends to put a satellite in orbit — as it claims — or test a long-range missile, as the Obama administration and many others suspect, Pyongyang has fueled dangerous new tensions in East Asia.

Japan has ordered its military to destroy the missile if the launch fails and debris falls on its territory. The Pentagon has sent two missile-interceptor ships off the Korean coast, and U.S. Defense Secretary Robert Gates said Monday that they would act only if the missile appeared headed toward U.S. territory. North Korea, meanwhile, has threatened unspecified "strong steps" if the U.N. Security Council decides to penalize it for the launch.

Before things get any worse, we urge the North Koreans to reconsider this foolhardy course. China, which has significant leverage — it is North Korea's main source of oil deliveries — needs to try harder to get Pyongyang to stand down. President Barack Obama and the Chinese president, Hu Jintao, meeting on Wednesday in London, need to discuss ways both to moderate Pyongyang's erratic behavior and to move forward negotiations intended to dismantle North Korea's nuclear program.

Unfortunately, this kind of dangerous misbehavior is standard procedure for North Korea. In 2006, it defied world leaders and tested both a nuclear device and a long-range missile. The Security Council imposed sanctions that have never been fully implemented and ordered Pyongyang to cease any further testing.

In this case, North Korea's leader, Kim Jong-il, who had a stroke last year, may be trying to show that he's still fully in charge — no matter the cost to his country. Or Kim and his gang may be trying to insert themselves onto Obama's crowded agenda or sow friction among the members of the six-party nuclear talks.

Whatever the motivation, the United States and its partners — South Korea, Japan, China and Russia — have to stay focused on what's most important: ending North Korea's nuclear weapons program. Under a 2005 agreement, North Korea shut down its reactor at Yongbyon — the source of plutonium for six or more nuclear weapons — and promised to dismantle its bomb-making infrastructure.

A lot more needs to be done. And the talks are now stalled over how the international community will verify that North Korea is living up to its commitments. Work to disable the Yongbyon facilities has slowed to a crawl, and the North Koreans have not received all the fuel deliveries that Washington and its partners promised.

The good news is that North Korea is not producing more plutonium for nuclear bombs.

That is crucial.

If Pyongyang defies the Security Council and tests a missile, there will have to be a clear — and unified — condemnation. But as soon as possible, Washington must work with its partners to find a way back to the negotiating table. However tortuous, firm and patient engagement offers the best chance of curbing Pyongyang's nuclear ambitions and its missile program.

MAURICE JARRE

The composer's film scores are reminders that in the movies there is no character and no landscape unless there is a musical soundscape too.

Without Maurice Jarre, who died last week at 84, who would David Lean's Lawrence of Arabia be? Peter O'Toole's deliquescent eyes, shimmering in the desert light, would have been little more than a silent mirage. Jarre's 1962 film score, which won an Academy Award, is a reminder that in the movies there is no character and no landscape unless there is a musical soundscape too.

Maurice Jarre gave many of us a notion of the scale on which our personal life theme music might be written. People often notice the nostalgic quality of scent, the way a familiar smell can instantly carry you backward in time. The same is true of music.

A few bars of the theme from "The Longest Day" — astonishingly upright and Anglo-American for a French composer — and I am somewhere back in 1962, when I first saw the movie — and even further back in 1945. I understood, of course, that there was no harmony in the real sounds of D-Day. But Jarre's score made the horrors and the heroism of that day palpably real for me.

To me, the indelible sign of Jarre's power is the score for "Doctor Zhivago," which was released in December 1965.

Let me put my 1965 in perspective. The Beatles album "Help" came out in August, and "Rubber Soul" came out a couple of weeks before "Zhivago." I was nearly deaf to anything that wasn't composed by Lennon and McCartney, unless it was composed by Brian Wilson. And yet there was still room in my head for Jarre's version of "Zhivago" — perhaps because it always carried with it an image of Julie Christie.

I cannot assess the professional significance of his movie music.

But then, I don't need to. All I have to do is listen to how one score of his after another opens a forgotten door in my life. We sit in the movies, and though we hear the music of the films we're watching, we do not seem to be listening to it. Only later do we realize that it has saturated us.

VERLYN KLINKENBORG The author is a member of the New York Times editorial board.

Karl Marx and the G-20

So many contradictions, yet the capitalists are still at it.

Paul Kennedy

With the eyes of the politically conscious classes riveted these days upon the G-20 summit meeting in London, it might seem odd or obscure to begin an article with a thought from Karl Marx.

The intellectual founding father of communism probably would have found it difficult to understand that global capitalism was still alive — and that the world's major governments, though shocked by certain stupid investment practices, were coming together to cobble the international market system back together again.

Yet despite the failure of Marx's political predictions, significant parts of his economic analysis are worth rescuing. In particular, consider his understanding that while longer-term, tectonic changes in "the forces of production" moved at a different pace from the hectic, week-by-week activities of governments and rulers occupying the "superstructure," nonetheless they would have a more important historical impact than any declaration by any group of heads of state.

Is that not true? History is littered with solemn agreements that failed to capture the shifting tectonic plates below. So why should not the general public — and the stock markets — have believed that awful international problems were at last being addressed?

So will it be for the G-20 conference in London. There will be resolutions that the world's media can only purr at: Greater lending resources must be available to the International Monetary Fund to aid economies and currencies in distress; the needs of the poorest countries (that is, the concern of the IMF's sister organization, the World Bank) have to be met; protectionist tendencies need to be headed off. What right-minded person could complain at those ideas?

A couple of other proposals about handling our global economic crisis are unlikely to end in such cozy intergovernmental declarations.

The first is the idea that the peculiar role of the U.S. dollar as the predominant (in some people's eyes, only) world currency should be altered to respond to the changing international circumstances.

Whether the advocates of this proposal are talking about creating a recognized "basket of currencies" or inventing a synthetic unit of account termed Special Drawing Rights or something else, everyone in this debate knows that it is not just about a technical alteration of weighted currencies — it is about pulling the American dollar down a bit and, with it, Washington's capacity to throw its weight around in the world, at least, in the economic world. Leading Chinese figures have talked about this for some while now. There are Russian sentiments in support of the idea, too. And it is difficult to imagine that President Sarkozy and other Euro nationalists would not like to see this happen.

It will not happen, at least not at the London summit. There are serious technical difficulties here, plus genuine market fears that there could be a run on the dollar. More important, it would be politically impossible for the new Obama administration to return to Washington to headlines like "Dollar Booted Out Of First Place."

History is littered with solemn agreements that failed to capture the shifting tectonic plates below.

Yet a glance at the objective global economic data would suggest that a diminution in the dollar's excessively positioned role as reserve currency is going to come, sooner or later, so why not figure out how to do this smoothly?

Crudely put, the United States possesses around one-fifth of the world's GDP, but its own paper provides around 75 percent of the world's exchangeable currency reserves. This is a worrying imbalance, especially when Washington is relying upon foreigners to cover its own enormous federal deficits.

To Marx, gazing down at the London summit from his grave at the Highgate Cemetery, this is an obvious capitalist "contradiction" — that is, when the national forces of production differ so markedly from the international shares of tradable currency, something is going to crack. And that something will be the latter.

The second touchy issue is one that could get more of an airing, and that is the balance of power at the top of the International Monetary Fund. Virtually everyone agrees that the Fund should be given much greater resources than at present — two times? three times? — to assist states and their currencies beaten down amidst the current economic whirlwinds. Japan has already pledged $100 billion; the EU the same; and the United States will also commit such funds, the Congress permitting. But everyone is looking to the world's greatest possessor of currency reserves, China, also to make a very large contribution.

But why, the Chinese ask behind the scenes, should they become a major banker to an institution that they have only recently joined and that is clearly tilted in its governance and its culture toward the Western capitalist system?

If China and other Asian countries are asked to contribute greater tranches to the IMF's total loan holdings, then surely they have to occupy a larger place on the governing board? Why should it be assumed that the old Bretton Woods disposition of chairs, with the president of the World Bank being an American and the manager of the IMF being a (continental) European, will continue for very much longer?

When, perhaps within a decade's time, China's share of IMF funding becomes larger than the EU's, wouldn't it be a "contradiction" for Europe to claim the top managerial spot?

Readers will see the way this article is going. It is one thing (and a good thing) for leaders of the world's leading nations and fiscal institutions to meet in London and try to avert the international slump from getting worse. If they can all look like a happy family, it will seem even better, and the shortsighted market traders will love it.

But it is another thing to suppose that by these important political proceedings, and with a bit of luck, things can be returned back to "normal" — that is, the world before the banking and credit and commercial crisis broke. Underneath, the economic tectonic plates — Marx's oft-derided "substructures" — are still moving, away from the West, and toward the successful parts of the Rest.

These shifts will affect the Bretton Woods institutions, the place of the dollar in world currency markets, the EU's frazzled 50-year bid to be a major player in world affairs before being pushed aside by China and India, and, ultimately, the position of the United States as the fulcrum of our globe.

This is an interesting world summit alright, but perhaps for more reasons than the excitable and breathless media coverage may appreciate.

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Obama's ersatz capitalism

The bailout plan works only if the taxpayer loses big time.

Joseph E. Stiglitz

The Obama administration's $500 billion or more proposal to deal with America's ailing banks has been described as a win-win-win proposal. Actually, it is a win-win-lose proposal: the banks win, investors win — and taxpayers lose.

The U.S. Treasury hopes to get us out of the mess by replicating the flawed system that the private sector used to bring the world crashing down, with a proposal marked by overleveraging in the public sector, excessive complexity, poor incentives and a lack of transparency.

Let's take a moment to remember what caused this mess in the first place. Banks got themselves, and the economy, into trouble by overleveraging — that is, using relatively little capital of their own, they borrowed heavily to buy extremely risky real estate assets. In the process, they used overly complex instruments like collateralized debt obligations. The prospect of high compensation gave managers incentives to be short-sighted and undertake excessive risk, rather than lend money prudently.

In theory, the administration's plan is based on letting the market determine the prices of the banks' "toxic assets" — including outstanding house loans and securities based on those loans. The reality is that the market will not be pricing the toxic assets themselves, but options on those assets. The two have little to do with each other. The government plan in effect involves insuring almost all losses. Since the private investors are spared most losses, then they primarily "value" their potential gains. This is exactly the same as being given an option.

Consider an asset that has a 50-50 chance of being worth either zero or $200 in a year's time. The average "value" of the asset is $100. Ignoring interest, this is what the asset would sell for in a competitive market. It is what the asset is "worth." Under the plan by Treasury Secretary Timothy Geithner, the government would provide about 92 percent of the money to buy the asset but would stand to receive only 50 percent of any gains, and would absorb almost all of the losses. Some partnership!

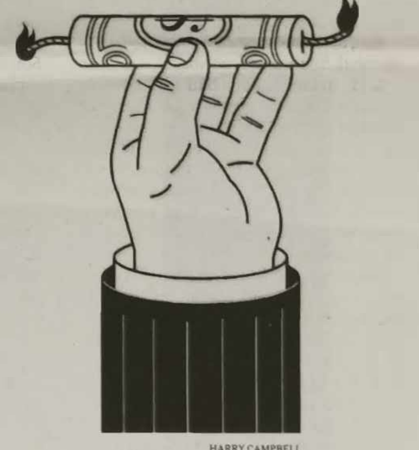
Assume that one of the public-private partnerships the Treasury has promised to create is willing to pay $150 for the asset. That's 50 percent more than its true value, and the bank is more than happy to sell. So the private partner puts up $12, and the government supplies the rest — $12 in "equity" plus $126 in the form of a guaranteed loan.

If it turns out that the true value of the asset is zero, the private partner loses the $12, and the government loses $138. If the true value is $200, the government and the private partner split the $74 that's left over after paying back the $126 loan. In that rosy scenario, the private partner more than triples his $12 investment. But the taxpayer, having risked $138, gains a mere $37.

But Americans are likely to lose even more than these calculations suggest, because of an effect called adverse selection. The banks get to choose the loans and securities that they want to sell. They will want to sell the worst assets, and especially the assets that they think the market overestimates (and thus is willing to pay too much for).

But the market is likely to recognize this, which will drive down the price. Only the government's picking up enough of the losses overcomes this "adverse selection" effect. With the government absorbing the losses, the market doesn't care if the banks are "cheating" them by selling their lousiest assets, because the government bears the cost.

The main problem is not a lack of liquidity. If it were, then a far simpler program would work: just provide the funds without loan guarantees. The real issue is that the banks made bad loans in a bubble and were highly leveraged. They have lost their capital, and this capital has to be replaced. Paying fair market values for the assets will not work. Only by overpaying for the assets will the banks be adequately recapitalized.



HARRY CAMPBELL

But overpaying for the assets simply shifts the losses to the government. In other words, the Geithner plan works only if and when the taxpayer loses big time.

Some Americans are afraid that the government might temporarily "nationalize" the banks, but that option would preferable to the Geithner plan. After all, the FDIC has taken control of failing banks before, and done it well. What the Obama administration is doing is worse than nationalization: It is ersatz capitalism, the privatizing of gains and the socializing of losses. It is a "partnership" in which one partner robs the other. And such partnerships — with the private sector in control — have perverse incentives, worse even than the ones that got us into the mess.

We are already suffering from a crisis of confidence. When the high costs of the administration's plan become apparent, confidence will be eroded further. At that point the task of resuscitating the economy, will be even harder.

JOSEPH E. STIGLITZ *was awarded the Nobel prize in economics in 2001.*

A world in need of a new order

A new international system must be multipolar, heterogeneous and global.

Thierry de Montbrial

Future historians might look at the collapse of the Soviet Union as the end of the 20th century, and at the current financial crisis as the beginning of the 21st. Remarkably, these two macro events have a common root, which is also the root of globalization: the revolution of Information Technologies.

In the 1970s, the IT revolution accelerated the arms race; the Soviet Union proved unable to follow the United States. Ultimately, the Marxist-Leninist system and ideology vanished.

The financial and more generally the managerial revolution occurred in the 1980s. The world economy embarked on a strong and stable upswing. In the 1990s, many could believe that democracy and market economy had won an irreversible victory and would quickly spread everywhere.

The "international community," led by the United States, seemed to be on the way to universal peace and prosperity. It was a dream. History came back under the presidency of George W. Bush, starting with 9/11 and ending with the burst of an unprecedented asset bubble. The institutional framework of world governance erected since World War II proved a failure.

What the international community can and must demonstrate now is a willingness to undertake a full reconstruction. The G-20 summit would be a great success if it could achieve just that, in addition to agreeing on credible immediate economic and financial measures.

Any attempt to rebuild governance must recognize that the new international system must be multipolar, heterogeneous and global.

Multipolarity means that although the United States will remain the only superpower for the foreseeable future, it can no longer pretend to lead the world alone. This is why we need a relevant group of permanent members for the U.N. Security Council, which would potentially include at least the following five natural "poles" — the United States, Japan, China, Russia and European Union. The members of this group should recognize they collectively share responsibilities for a politically sustainable globalization process, including such issues as climate change.

They should recognize that collective leadership implies taking into account the interests of smaller states. In particular, efficiency and legitimacy imply that regional approaches should systematically be encouraged and developed. For example, no peace and security framework in the Middle East is conceivable without Iran as a major regional partner.

Heterogeneity is a crucial reality. Such countries as China or Russia will not become liberal democracies in the foreseeable future, not to speak of many smaller states. Nonetheless, Western countries should cooperate and develop confidence-building measures with all of them. They should refrain from arrogant neocolonial attitudes. Democracy and human rights should spread by virtue of examples set by those who claim the superiority of these values.

There is no way to maintain an open world without strong states able and willing to cooperate through efficient and legitimate frameworks. If we fail to move in this direction, we risk reproducing a kind of post-World War I scenario: The combination of nationalist forces and beggar-thy-neighbor protectionist policies could lead to a planetary disaster.

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