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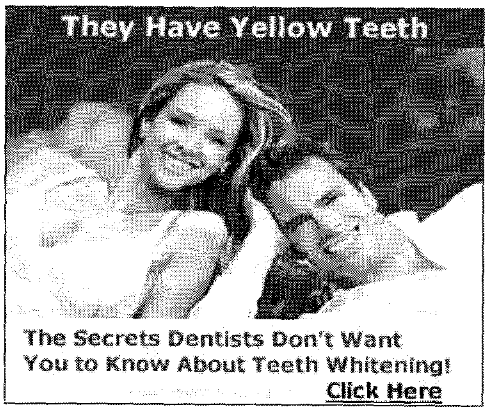

We must keep trade from falling off a cliff

Barry Eichengreen
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Americans may not realize it, but the biggest threat to economic stability is not falling home prices and retail spending but collapsing world trade. The value of global merchandise exports was down fully 45 percent in November 2008 from 12 months before. This is a terrifying number.

Nothing remotely comparable has ever happened before - not even in the Great Depression of the 1930s.

This is a body blow to an already staggering U.S. economy. U.S. exports in the fourth quarter of last year fell by more than 25 percent in constant dollars. California is being hit especially hard: outbound container traffic from the Ports of Long Beach and Los Angeles was down 30 percent in December 2008 from a year earlier.

It's not surprising that when global growth slows, trade growth slows. But this trade implosion is unprecedented even for a major recession.

The explanation is the disruption to the financial system. Exporters need bank credit to transport their goods and insure them while in transit. And trade credit has dried up completely in the financial crisis. Banks desperate for liquidity are unwilling or unable to extend it to exporters.

The irony is that trade credit is virtually without risk; it is collateralized by the goods whose export it finances. But this also means that there is a solution.

The International Monetary Fund and World Bank could quickly establish a Global Export-Import Bank. They could float, say, $2 trillion of bonds making use of their AAA-credit rating and extend credit directly to exporters.

This is something they should have done yesterday.

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