Red alert: The world's economy is on fire

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Here's an invisible force that should make you nervous: the giant mess that is the global economy. Don't glaze over. There's more drama than you'd think.

From Venezuela to China to Europe, much of the world finds itself on fire, mostly over monetary issues. The Russian ruble is down, way down, while economists say China must stop squandering its money on investments. Japan and Europe — which together account for 30 percent of the world's economy — are both fighting off recessions. In Japan, that's meant flooding its own economy with money and boosting the sales tax last year, both to little avail. In Europe, the response has so far meant pushing down wages. "The hardball approach hasn't worked," says Adam Posen , president of the Peterson Institute for International Economics, a Washington-based think tank.

There is one country, though, that has escaped all this — and you don't have to look very far to find it. How the United States handles all this power could be critical this year.

Each country's story is different, of course, but plunging oil prices are no small part of all this. Those in the heart of the danger zone are nations who have depended on cheap oil or subsidies — plus bankers, including American ones, who lent money to drillers. Though some experts don't predict a total derailing of global stability, it's hard to deny that the drop has put a significant portion of the world in trouble.

In Russia, the ruble lost more than half its value last year, amidst not only the cheaper oil but also sanctions by several world powers against it. The country's central bank has gone so far as to impose 17 percent interest rates, but that hasn't stopped Russians and others from pulling their money out of the country. Japan, meanwhile, is trying to end deflation by flooding its economy with money — buying trillions of dollars of Japanese government bonds — while the European Central Bank is trying to stave it off and promising to do the same. But did that strategy help Japan? It fell into a recession after boosting the national sales tax last year, while Europe has attempted "structural reform" mainly by pushing down wages.

In China, trillions of investment dollars were wasted in recent years, says a report in the *Shanghai Securities News*, including in steel, automobiles and construction. In November, faced with excess capacity, slowing growth and declining inflation, the Chinese central bank jumped in with a surprise interest rate cut. Worldwide financial markets celebrated, for a day anyway.

What's the Fed to do? George Selgin, senior fellow at the Cato Institute, is against any delay in the U.S. raising interest rates. Delaying, he warns, could lead to another asset price bubble that could pop and make a mess. David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at Brookings, says that getting the timing of the rate hike right is one "really tricky" issue to keep Yellen awake at night. It's an art, not a science, and easy to mess up. Too early and recovery could be choked off. Too late and inflation could sap the Fed's credibility.

Actually, that's already in doubt. Economists at Morgan Stanley found a remarkable correlation: As the Fed bought more and more government bonds and other assets following the 2008 financial crisis, for a total of $4.5 trillion, statements following Fed meetings got progressively longer, as the Fed qualified and explained more of its thinking. In December, three of the Fed's 10 governors dissented from the decision of the committee, which usually proceeds by consensus. Open dissension within the committee sounds like democracy, but it's unlikely to convince jittery markets that the Fed knows where it's going.