GLOBALIZATION AND ITS DISCONTENTS

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CHAPTER 1

THE PROMISE OF GLOBAL INSTITUTIONS

INTERNATIONAL BUREAUCRATS—THE faceless symbols of the world economic order—are under attack everywhere. Formerly uneventful meetings of obscure technocrats discussing mundane subjects such as concessional loans and trade quotas have now become the scene of raging street battles and huge demonstrations. The protests at the Seattle meeting of the World Trade Organization in 1999 were a shock. Since then, the movement has grown stronger and the fury has spread. Virtually every major meeting of the International Monetary Fund, the World Bank, and the World Trade Organization is now the scene of conflict and turmoil. The death of a protestor in Genoa in 2001 was just the beginning of what may be many more casualties in the war against globalization.

Riots and protests against the policies of and actions by institutions of globalization are hardly new. For decades, people in the developing world have rioted when the austerity programs imposed on their countries proved to be too harsh, but their protests were largely unheard in the West. What is new is the wave of protests in the developed countries.

It used to be that subjects such as structural adjustment loans (the programs that were designed to help countries adjust to and weather crises) and banana quotas (the limits that some European countries impose on the importing of bananas from countries other than their former colonies) were of interest to only a few. Now sixteen-year-old kids from the suburbs have strong opinions on such esoteric treaties as GATT (the General Agreement on Tariffs and Trade) and NAFTA (the North American Free Trade Area, the agreement signed in 1992 between Mexico, United States, and Canada that allows for the freer movement of goods, services, and investment—but not people—among those countries). These protests have provoked an enormous amount of soul-searching from those in power. Even conservative politicians such as France's president, Jacques Chirac, have expressed concern that globalization is not making life better for those most in need of its promised benefits.[1] It is clear to almost everyone that something has gone horribly wrong. Almost overnight, globalization has become the most pressing issue of our time, something debated from boardrooms to op-ed pages and in schools all over the world.

WHY HAS GLOBALIZATION—a force that has brought so much good—become so controversial? Opening up to international trade has helped many countries grow far more quickly than they would otherwise have done. International trade helps economic development when a country's exports drive its economic growth. Export-led growth was the centerpiece of the industrial policy that enriched much of Asia and left millions of people there far better off. Because of globalization many people in the world now live longer than before and their standard of living is far better. People in the West may regard low-paying jobs at Nike as exploitation, but for many people in the developing world, working in a factory is a far better option than staying down on the farm and growing rice.

Globalization has reduced the sense of isolation felt in much of the developing world and has given many people in the developing countries access to knowledge well beyond the reach of even the wealthiest in any country a century ago. The antiglobalization protests themselves are a result of this connectedness. Links between activists in different parts of the world, particularly those links forged through Internet communication, brought about the pressure that resulted in the international landmines treaty—despite the opposition of many powerful governments. Signed by 121 countries as of 1997, it reduces the likelihood that children and other innocent victims will be maimed by mines. Similar, well-orchestrated public pressure forced the international community to forgive the debts of some of the poorest countries. Even when there are negative sides to globalization, there are often benefits. Opening up the Jamaican milk market to U.S. imports in 1992 may have hurt local dairy farmers but it also meant poor children could get milk more cheaply. New foreign firms may hurt protected state-owned enterprises but they can also lead to the introduction of new technologies, access to new markets, and the creation of new industries.

Foreign aid, another aspect of the globalized world, for all its faults still has brought benefits to millions, often in ways that have almost gone unnoticed: guerrillas in the Philippines were provided jobs by a World Bank–financed project as they laid down their arms; irrigation projects have more than doubled the incomes of farmers lucky enough to get water; education projects have brought literacy to the rural areas; in a few countries AIDS projects have helped contain the spread of this deadly disease.

Those who vilify globalization too often overlook its benefits. But the proponents of globalization have been, if anything, even more unbalanced. To them, globalization (which typically is associated with accepting triumphant capitalism, American style) *is* progress; developing countries must accept it, if they are to grow and to fight poverty effectively. But to many in the developing world, globalization has not brought the promised economic benefits.

A growing divide between the haves and the have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day. Despite repeated promises of poverty reduction made over the last decade of the twentieth century, the actual number of people living in poverty has actually increased by almost 100 million.[2] This occurred at the same time that total world income actually increased by an average of 2.5 percent annually.

In Africa, the high aspirations following colonial independence have been largely unfulfilled. Instead, the continent plunges deeper into misery, as incomes fall and standards of living decline. The hard-won improvements in life expectancy gained in the past few decades have begun to reverse. While the scourge of AIDS is at the center of this decline, poverty is also a killer. Even countries that have abandoned African socialism, managed to install reasonably honest governments, balanced their budgets, and kept inflation down find that they simply cannot attract private investors. Without this investment, they cannot have sustainable growth.

If globalization has not succeeded in reducing poverty, neither has it succeeded in ensuring stability. Crises in Asia and in Latin America have threatened the economies and the stability of all developing countries. There are fears of financial contagion spreading around the world, that the collapse of one emerging market currency will mean that others fall as well. For a while, in 1997 and 1998, the Asian crisis appeared to pose a threat to the entire world economy.

Globalization and the introduction of a market economy has not produced the promised results in Russia and most of the other economies making the transition from communism to the market. These countries were told by the West that the new economic system would bring them unprecedented prosperity. Instead, it brought unprecedented poverty: in many respects, for most of the people, the market economy proved even worse than their Communist leaders had predicted. The contrast between Russia's transition, as engineered by the international economic institutions, and that of China, designed by itself, could not be greater: While in 1990 China's gross domestic product (GDP) was 60 percent that of Russia, by the end of the decade the numbers had been reversed. While Russia saw an unprecedented increase in poverty, China saw an unprecedented decrease.

The critics of globalization accuse Western countries of hypocrisy, and the critics are right. The Western countries have pushed poor countries to eliminate trade barriers, but kept up their own barriers, preventing developing countries from exporting their agricultural products and so depriving them of desperately needed export income. The United States was, of course, one of the prime culprits, and this was an issue about which I felt intensely. When I was chairman of the Council of Economic Advisers, I fought hard against this hypocrisy. It not only hurt the developing countries; it also cost Americans, both as consumers, in the higher prices they paid, and as

taxpayers, to finance the huge subsidies, billions of dollars. My struggles were, all too often, unsuccessful. Special commercial and financial interests prevailed—and when I moved over to the World Bank, I saw the consequences to the developing countries all too clearly.

But even when not guilty of hypocrisy, the West has driven the globalization agenda, ensuring that it garners a disproportionate share of the benefits, at the expense of the developing world. It was not just that the more advanced industrial countries declined to open up their markets to the goods of the developing countries—for instance, keeping their quotas on a multitude of goods from textiles to sugar—while insisting that those countries open up their markets to the goods of the wealthier countries; it was not just that the more advanced industrial countries continued to subsidize agriculture, making it difficult for the developing countries to compete, while insisting that the developing countries eliminate their subsidies on industrial goods. Looking at the "terms of trade"—the prices which developed and less developed countries get for the products they produce—after the last trade agreement in 1995 (the eighth), the *net* effect was to lower the prices some of the poorest countries in the world received relative to what they paid for their imports.* The result was that some of the poorest countries in the world were actually made worse off.

Western banks benefited from the loosening of capital market controls in Latin America and Asia, but those regions suffered when inflows of speculative hot money (money that comes into and out of a country, often overnight, often little more than betting on whether a currency is going to appreciate or depreciate) that had poured into countries suddenly reversed. The abrupt outflow of money left behind collapsed currencies and weakened banking systems. The Uruguay Round also strengthened intellectual property rights.

*This eighth agreement was the result of negotiations called the *Uruguay Round* because the negotiations began in 1986 in Punta del Este, Uruguay. The round was concluded in Marrakech on December 15, 1993, when 117 countries joined in this trade liberalization agreement. The agreement was finally signed for the United States by President Clinton on December 8, 1994. The World Trade Organization came into formal effect on January 1, 1995, and over 100 nations had signed on by July. One provision of the agreement entailed converting the GATT into the WTO.

American and other Western drug companies could now stop drug companies in India and Brazil from "stealing" their intellectual property. But these drug companies in the developing world were making these life-saving drugs available to their citizens at a fraction of the price at which the drugs were sold by the Western drug companies. There were thus two sides to the decisions made in the Uruguay Round. Profits of the Western drug companies would go up. Advocates said this would provide them more incentive to innovate; but the increased profits from sales in the developing world were small, since few could afford the drugs, and hence the incentive effect, at best, might be limited. The other side was that thousands were effectively condemned to death, because governments and individuals in developing countries could no longer pay the high prices demanded. In the case of AIDS, the international outrage was so great that drug companies had to back down, eventually agreeing to lower their prices, to sell the drugs at cost in late 2001. But the underlying problems—the fact that the intellectual property regime established under the Uruguay Round was not balanced, that it overwhelmingly reflected the interests and perspectives of the producers, as opposed to the users, whether in developed or developing countries—remain.

Not only in trade liberalization but in every other aspect of globalization even seemingly well-intentioned efforts have often backfired. When projects, whether agriculture or infrastructure, recommended by the West, designed with the advice of Western advisers, and financed by the World Bank or others have failed, unless there is some form of debt forgiveness, the poor people in the developing world still must repay the loans.

If, in too many instances, the benefits of globalization have been less than its advocates claim, the price paid has been greater, as the environment has been destroyed, as political processes have been corrupted, and as the rapid pace of change has not allowed countries time for cultural adaptation. The crises that have brought in their wake massive unemployment have, in turn, been followed by longer-term problems of social dissolution—from urban violence in Latin America to ethnic conflicts in other parts of the world, such as Indonesia.

These problems are hardly new—but the increasingly vehement

worldwide reaction against the policies that drive globalization is a significant change. For decades, the cries of the poor in Africa and in developing countries in other parts of the world have been largely unheard in the West. Those who labored in the developing countries knew something was wrong when they saw financial crises becoming more commonplace and the numbers of poor increasing. But they had no way to change the rules or to influence the international financial institutions that wrote them. Those who valued democratic processes saw how "conditionality"—the conditions that international lenders imposed in return for their assistance—undermined national sovereignty. But until the protestors came along there was little hope for change and no outlets for complaint. *Some* of the protestors went to excesses; *some* of the protestors were arguing for higher protectionist barriers against the developing countries, which would have made their plight even worse. But despite these problems, it is the trade unionists, students, environmentalists—ordinary citizens—marching in the streets of Prague, Seattle, Washington, and Genoa who have put the need for reform on the agenda of the developed world.

Protestors see globalization in a very different light than the treasury secretary of the United States, or the finance and trade ministers of most of the advanced industrial countries. The differences in views are so great that one wonders, are the protestors and the policy makers talking about the same phenomena? Are they looking at the same data? Are the visions of those in power so clouded by special and particular interests?

What is this phenomenon of globalization that has been subject, at the same time, to such vilification and such praise? Fundamentally, it is the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders. Globalization has been accompanied by the creation of new institutions that have joined with existing ones to work across borders. In the arena of international civil society, new groups, like the Jubilee movement pushing for debt reduction for the poorest countries, have joined long-established organizations like the International Red Cross. Globalization is powerfully driven by international corporations, which move not only capital and goods across borders but also technology. Globalization has also led to renewed attention to long-established international *intergovernmental* institutions: the United Nations, which attempts to maintain peace; the International Labor Organization (ILO), originally created in 1919, which promotes its agenda around the world under its slogan "decent work"; and the World Health Organization (WHO), which has been especially concerned with improving health conditions in the developing world.

Many, perhaps most, of these aspects of globalization have been welcomed everywhere. No one wants to see their child die, when knowledge and medicines are available somewhere else in the world. It is the more narrowly defined *economic* aspects of globalization that have been the subject of controversy, and the international institutions that have written the rules, which mandate or push things like liberalization of capital markets (the elimination of the rules and regulations in many developing countries that are designed to stabilize the flows of volatile money into and out of the country).

To understand what went wrong, it's important to look at the three main institutions that govern globalization: the IMF, the World Bank, and the WTO. There are, in addition, a host of other institutions that play a role in the international economic system—a number of regional banks, smaller and younger sisters to the World Bank, and a large number of UN organizations, such as the UN Development Program or the UN Conference on Trade and Development (UNCTAD). These organizations often have views that are markedly different from the IMF and the World Bank. The ILO, for example, worries that the IMF pays too little attention to workers' rights, while the Asian Development Bank argues for "competitive pluralism," whereby developing countries will be provided with alternative views of development strategies, including the "Asian model"—in which governments, while relying on markets, have taken an active role in creating, shaping, and guiding markets, including promoting new technologies, and in which firms take considerable responsibility for the social welfare of their employees—which the Asian Development Bank sees as distinctly different from the American model pushed by the Washington-based institutions.

In this book, I focus mostly on the IMF and the World Bank, largely because they have been at the center of the major economic issues of the last two decades, including the financial crises and the transition of the former Communist countries to market economies. The IMF and the World Bank both originated in World War II as a result of the UN Monetary and Financial Conference at Bretton Woods, New Hampshire, in July 1944, part of a concerted effort to finance the rebuilding of Europe after the devastation of World War II and to save the world from future economic depressions. The proper name of the World Bank—the International Bank for Reconstruction and Development—reflects its original mission; the last part, "Development," was added almost as an afterthought. At the time, most of the countries in the developing world were still colonies, and what meager economic development efforts could or would be undertaken were considered the responsibility of their European masters.

The more difficult task of ensuring global economic stability was assigned to the IMF. Those who convened at Bretton Woods had the global depression of the 1930s very much on their minds. Almost three quarters of a century ago, capitalism faced its most severe crisis to date. The Great Depression enveloped the whole world and led to unprecedented increases in unemployment. At the worst point, a quarter of America's workforce was unemployed. The British economist John Maynard Keynes, who would later be a key participant at Bretton Woods, put forward a simple explanation, and a correspondingly simple set of prescriptions: lack of sufficient aggregate demand explained economic downturns; government policies could help stimulate aggregate demand. In cases where monetary policy is ineffective, governments could rely on fiscal policies, either by increasing expenditures or cutting taxes. While the models underlying Keynes's analysis have subsequently been criticized and refined, bringing a deeper understanding of why market forces do not work quickly to adjust the economy to full employment, the basic lessons remain valid.

The International Monetary Fund was charged with preventing another global depression. It would do this by putting international pressure on countries that were not doing their fair share to maintain global aggregate demand, by allowing their own economies to go into a slump. When necessary it would also provide liquidity in the form of loans to those countries facing an economic downturn and unable to stimulate aggregate demand with their own resources.

In its original conception, then, the IMF was based on a recognition that markets often did not work well—that they could result in massive unemployment and might fail to make needed funds available to countries to help them restore their economies. The IMF was founded on the belief that there was a need for *collective action at the global level* for economic stability, just as the United Nations had been founded on the belief that there was a need for collective action at the global level for political stability. The IMF is a *public* institution, established with money provided by taxpayers around the world. This is important to remember because it does not report directly to either the citizens who finance it or those whose lives it affects. Rather, it reports to the ministries of finance and the central banks of the governments of the world. They assert their control through a complicated voting arrangement based largely on the economic power of the countries at the end of World War II. There have been some minor adjustments since, but the major developed countries run the show, with only one country, the United States, having effective veto. (In this sense, it is similar to the UN, where a historical anachronism determines who holds the veto—the victorious powers of World War II—but at least there the veto power is shared among five countries.)

Over the years since its inception, the IMF has changed markedly. Founded on the belief that markets often worked badly, it now champions market supremacy with ideological fervor. Founded on the belief that there is a need for international pressure on countries to have more expansionary economic policies—such as increasing expenditures, reducing taxes, or lowering interest rates to stimulate the economy—today the IMF typically provides funds only if countries engage in policies like cutting deficits, raising taxes, or raising

interest rates that lead to a contraction of the economy. Keynes would be rolling over in his grave were he to see what has happened to his child.

The most dramatic change in these institutions occurred in the 1980s, the era when Ronald Reagan and Margaret Thatcher preached free market ideology in the United States and the United Kingdom. The IMF and the World Bank became the new missionary institutions, through which these ideas were pushed on the reluctant poor countries that often badly needed their loans and grants. The ministries of finance in poor countries were willing to become converts, if necessary, to obtain the funds, though the vast majority of government officials, and, more to the point, people in these countries often remained skeptical. In the early 1980s, a purge occurred inside the World Bank, in its research department, which guided the Bank's thinking and direction. Hollis Chenery, one of America's most distinguished development economists, a professor at Harvard who had made fundamental contributions to research in the economics of development and other areas as well, had been Robert McNamara's confidant and adviser. McNamara had been appointed president of the World Bank in 1968. Touched by the poverty that he saw throughout the Third World, McNamara had redirected the Bank's effort at its elimination, and Chenery assembled a first-class group of economists from around the world to work with him. But with the changing of the guard came a new president in 1981, William Clausen, and a new chief economist, Ann Krueger, an international trade specialist, best known for her work on "rent seeking"—how special interests use tariffs and other protectionist measures to increase their incomes at the expense of others. While Chenery and his team had focused on how markets failed in developing countries and what governments could do to improve markets and reduce poverty, Krueger saw government as the problem. Free markets were the solution to the problems of developing countries. In the new ideological fervor, many of the first-rate economists that Chenery had assembled left.

Although the missions of the two institutions remained distinct, it was at this time that their activities became increasingly intertwined.

In the 1980s, the Bank went beyond just lending for projects (like roads and dams) to providing broad-based support, in the form of *structural adjustment loans;* but it did this only when the IMF gave its approval—and with that approval came IMF-imposed conditions on the country. The IMF was supposed to focus on crises; but developing countries were always in need of help, so the IMF became a permanent part of life in most of the developing world.

The fall of the Berlin Wall provided a new arena for the IMF: managing the transition to a market economy in the former Soviet Union and the Communist bloc countries in Europe. More recently, as the crises have gotten bigger, and even the deep coffers of the IMF seemed insufficient, the World Bank was called in to provide tens of billions of dollars of emergency support, but strictly as a junior partner, with the guidelines of the programs dictated by the IMF. In principle, there was a division of labor. The IMF was supposed to limit itself to matters of *macroeconomics* in dealing with a country, to the government's budget deficit, its monetary policy, its inflation, its trade deficit, its borrowing from abroad; and the World Bank was supposed to be in charge of *structural issues*—what the country's government spent money on, the country's financial institutions, its labor markets, its trade policies. But the IMF took a rather imperialistic view of the matter: since almost any structural issue could affect the overall performance of the economy, and hence the government's budget or the trade deficit, it viewed almost everything as falling within its domain. It often got impatient with the World Bank, where even in the years when free market ideology reigned supreme there were frequent controversies about what policies would best suit the conditions of the country. The IMF had the answers (basically, the same ones for every country), didn't see the need for all this discussion, and, while the World Bank debated what should be done, saw itself as stepping into the vacuum to provide the answers.

The two institutions could have provided countries with alternative perspectives on some of the challenges of development and transition, and in doing so they might have strengthened democratic processes. But they were both driven by the collective will of the G-7 (the governments of the seven most important advanced industrial

countries),* and especially their finance ministers and treasury secretaries, and too often, the last thing they wanted was a lively democratic debate about alternative strategies.

A half century after its founding, it is clear that the IMF has failed in its mission. It has not done what it was supposed to do—provide funds for countries facing an economic downturn, to enable the country to restore itself to close to full employment. In spite of the fact that our understanding of economic processes has increased enormously during the last fifty years, and in spite of IMF's efforts during the past quarter century, crises around the world have been more frequent and (with the exception of the Great Depression) deeper. By some reckonings, close to a hundred countries have faced crises.[3] Worse, many of the policies that the IMF pushed, in particular, premature capital market liberalization, have contributed to global instability. And once a country was in crisis, IMF funds and programs not only failed to stabilize the situation but in many cases actually made matters worse, especially for the poor. The IMF failed in its original mission of promoting global stability; it has also been no more successful in the new missions that it has undertaken, such as guiding the transition of countries from communism to a market economy.

The Bretton Woods agreement had called for a third international economic organization—a World Trade Organization to govern international trade relations, a job similar to the IMF's governing of international financial relations. Beggar-thy-neighbor trade policies, in which countries raised tariffs to maintain their own economies but at the expense of their neighbors, were largely blamed for the spread of the depression and its depth. An international organization was required not just to prevent a recurrence but to encourage the free flow of goods and services. Although the General Agreement on

*These are the United States, Japan, Germany, Canada, Italy, France, and the UK. Today, the G-7 typically meets together with Russia (the G-8). The seven countries are no longer the seven largest economies in the world. Membership in the G-7, like permanent membership in the UN Security Council, is partly a matter of historical accident.

Tariffs and Trade (GATT) did succeed in lowering tariffs enormously, it was difficult to reach the final accord; it was not until 1995, a half century after the end of the war and two thirds of a century after the Great Depression, that the World Trade Organization came into being. But the WTO is markedly different from the other two organizations. It does not set rules itself; rather, it provides a forum in which trade negotiations go on and it ensures that its agreements are lived up to.

The ideas and intentions behind the creation of the international economic institutions were good ones, yet they gradually evolved over the years to become something very different. The Keynesian orientation of the IMF, which emphasized market failures and the role for government in job creation, was replaced by the free market mantra of the 1980s, part of a new "Washington Consensus"—a consensus between the IMF, the World Bank, and the U.S. Treasury about the "right" policies for developing countries—that signaled a radically different approach to economic development and stabilization.

Many of the ideas incorporated in the consensus were developed in response to the problems in Latin America, where governments had let budgets get out of control while loose monetary policies had led to rampant inflation. A burst of growth in some of that region's countries in the decades immediately after World War II had not been sustained, allegedly because of excessive state intervention in the economy. The ideas that were developed to cope with problems arguably specific to Latin American countries, and which I will outline later in the book, subsequently been deemed applicable to countries around the world. Capital market liberalization has been pushed despite the fact that there is no evidence showing it spurs economic growth. In other cases, the economic policies that evolved into the Washington Consensus and were introduced into developing countries were not appropriate for countries in the early stages of development or early stages of transition.

To take just a few examples, most of the advanced industrial countries—including the United States and Japan—had built up their economies by wisely and selectively protecting some of their industries until they were strong enough to compete with foreign companies. While blanket protectionism has often not worked for countries

that have tried it, neither has rapid trade liberalization. Forcing a developing country to open itself up to imported products that would compete with those produced by certain of its industries, industries that were dangerously vulnerable to competition from much stronger counterpart industries in other countries, can have disastrous consequences—socially and economically. Jobs have systematically been destroyed—poor farmers in developing countries simply couldn't compete with the highly subsidized goods from Europe and America—before the countries' industrial and agricultural sectors were able to grow strong and create new jobs. Even worse, the IMF's insistence on developing countries maintaining tight monetary policies has led to interest rates that would make job creation impossible even in the best of circumstances. And because trade liberalization occurred before safety nets were put into place, those who lost their jobs were forced into poverty. Liberalization has thus, too often, not been followed by the promised growth, but by increased misery. And even those who have not lost their jobs have been hit by a heightened sense of insecurity.

Capital controls are another example: European countries banned the free flow of capital until the seventies. Some might say it's not fair to insist that developing countries with a barely functioning bank system risk opening their markets. But putting aside such notions of fairness, it's bad economics; the influx of hot money into and out of the country that so frequently follows after capital market liberalization leaves havoc in its wake. Small developing countries are like small boats. Rapid capital market liberalization, in the manner pushed by the IMF, amounted to setting them off on a voyage on a rough sea, before the holes in their hulls have been repaired, before the captain has received training, before life vests have been put on board. Even in the best of circumstances, there was a high likelihood that they would be overturned when they were hit broadside by a big wave.

The application of mistaken economic theories would not be such a problem if the end of first colonialism and then communism had not given the IMF and the World Bank the opportunity to greatly expand their respective original mandates, to vastly extend their reach. Today these institutions have become dominant players in the world economy. Not only countries seeking their help but also those seeking their "seal of approval" so that they can better access international capital markets must follow their economic prescriptions, prescriptions which reflect their free market ideologies and theories.

The result for many people has been poverty and for many countries social and political chaos. The IMF has made mistakes in all the areas it has been involved in: development, crisis management, and in countries making the transition from communism to capitalism. Structural adjustment programs did not bring sustained growth even to those, like Bolivia, that adhered to its strictures; in many countries, excessive austerity stifled growth; successful economic programs require extreme care in *sequencing*—the order in which reforms occur—and pacing. If, for instance, markets are opened up for competition too rapidly, before strong financial institutions are established, then jobs will be destroyed faster than new jobs are created. In many countries, mistakes in sequencing and pacing led to rising unemployment and increased poverty.[4] After the 1997 Asian crisis, IMF policies exacerbated the crises in Indonesia and Thailand. Free market reforms in Latin America have had one or two successes—Chile is repeatedly cited—but much of the rest of the continent has still to make up for the lost decade of growth following the so-called successful IMF bailouts of the early 1980s, and many today have persistently high rates of unemployment—in Argentina, for instance, at double-digit levels since 1995—even as inflation has been brought down. The collapse in Argentina in 2001 is one of the most recent of a series of failures over the past few years. Given the high unemployment rate for almost seven years, the wonder is not that the citizens eventually rioted, but that they suffered quietly so much for so long. Even those countries that have experienced some limited growth have seen the benefits accrue to the well-off, and especially the *very* well-off—the top 10 percent—while poverty has remained high, and in some cases the income of those at the bottom has even fallen.

Underlying the problems of the IMF and the other international economic institutions is the problem of governance: who decides what they do. The institutions are dominated not just by the wealthiest industrial countries but by commercial and financial interests in those countries, and the policies of the institutions naturally reflect

this. The choice heads for these institutions symbolizes the institutions' problem, and too often has contributed to their dysfunction. While almost all of the activities of the IMF and the World Bank today are in the developing world (certainly, all of their lending), they are led by representatives from the industrialized nations. (By custom or tacit agreement the head of the IMF is always a European, that of the World Bank an American.) They are chosen behind closed doors, and it has never even been viewed as a prerequisite that the head should have any experience in the developing world. The institutions are not representative of the nations they serve.

The problems also arise from who *speaks* for the country. At the IMF, it is the finance ministers and the central bank governors. At the WTO, it is the trade ministers. Each of these ministers is closely aligned with particular constituencies *within* their countries. The trade ministries reflect the concerns of the business community—both exporters who want to see new markets opened up for their products and producers of goods which compete with new imports. These constituencies, of course, want to maintain as many barriers to trade as they can and keep whatever subsidies they can persuade Congress (or their parliament) to give them. The fact that the trade barriers raise the prices consumers pay or that the subsidies impose burdens on taxpayers is of less concern than the profits of the producers—and environmental and labor issues are of even less concern, other than as obstacles that have to be overcome. The finance ministers and central bank governors typically are closely tied to the financial community; they come from financial firms, and after their period of government service, that is where they return. Robert Rubin, the treasury secretary during much of the period described in this book, came from the largest investment bank, Goldman Sachs, and returned to the firm, Citigroup, that controlled the largest commercial bank, Citibank. The number-two person at the IMF during this period, Stan Fischer, went straight from the IMF to Citigroup. These individuals naturally see the world through the eyes of the financial community. The decisions of any institution naturally reflect the perspectives and interests of those who make the decisions; not surprisingly, as we shall see repeatedly in the following chapters, the policies of the international economic institutions are all too often closely aligned with the commercial and financial interests of those in the advanced industrial countries.

For the peasants in developing countries who toil to pay off their countries' IMF debts or the businessmen who suffer from higher value-added taxes upon the insistence of the IMF, the current system run by the IMF is one of taxation without representation. Disillusion with the international system of globalization under the aegis of the IMF grows as the poor in Indonesia, Morocco, or Papua New Guinea have fuel and food subsidies cut, as those in Thailand see AIDS increase as a result of IMF-forced cutbacks in health expenditures, and as families in many developing countries, having to pay for their children's education under so-called cost recovery programs, make the painful choice not to send their daughters to school.

Left with no alternatives, no way to express their concern, to press for change, people riot. The streets, of course, are not the place where issues are discussed, policies formulated, or compromises forged. But the protests have made government officials and economists around the world think about alternatives to these Washington Consensus policies as the one and true way for growth and development. It has become increasingly clear not to just ordinary citizens but to policy makers as well, and not just those in the developing countries but those in the developed countries as well, that globalization as it has been practiced has not lived up to what its advocates promised it would accomplish—or to what it can and should do. In some cases it has not even resulted in growth, but when it has, it has not brought benefits to all; the net effect of the policies set by the Washington Consensus has all too often been to benefit the few at the expense of the many, the well-off at the expense of the poor. In many cases commercial interests and values have superseded concern for the environment, democracy, human rights, and social justice.

Globalization itself is neither good nor bad. It has the *power* to do enormous good, and for the countries of East Asia, who have embraced globalization *under their own terms*, at their own pace, it has been an enormous benefit, in spite of the setback of the 1997 crisis But in much of the world it has not brought comparable benefits. For many, it seems closer to an unmitigated disaster.

The experience of the United States during the nineteenth century makes a good parallel for today's globalization—and the contrast helps illustrate the successes of the past and today's failures. At that time, when transportation and communication costs fell and previously local markets expanded, new national economies formed, and with these new national economies came national companies, doing business throughout the country. But the markets were not left to develop willy-nilly on their own; government played a vital role in shaping the evolution of the economy. The U.S. government obtained wide economic latitude when the courts broadly interpreted the constitutional provision that allows the federal government to regulate interstate commerce. The federal government began to regulate the financial system, set minimum wages and working conditions, and eventually provided unemployment and welfare systems to deal with the problems posed by a market system. The federal government also promoted some industries (the first telegraph line, for example, was laid by the federal government between Baltimore and Washington in 1842) and encouraged others, like agriculture, not just helping set up universities to do research but providing extension services to train farmers in the new technologies. The federal government played a central role not only in promoting American growth. Even if it did not engage in the kinds of active redistribution policies, at least it had programs whose benefits were widely shared—not just those that extended education and improved agricultural productivity, but also land grants that provided a minimum opportunity for all Americans.

Today, with the continuing decline in transportation and communication costs, and the reduction of man-made barriers to the flow of goods, services, and capital (though there remain serious barriers to the free flow of labor), we have a process of "globalization" analogous to the earlier processes in which national economies were formed. Unfortunately, we have no world government, accountable to the people of every country, to oversee the globalization process in a fashion comparable to the way national governments guided the nationalization process. Instead, we have a system that might be called *global governance without global government*, one in which a few institutions—the World Bank, the IMF, the WTO—and a few players—the finance, commerce, and trade ministries, closely linked to certain financial and commercial interests—dominate the scene, but in which many of those affected by their decisions are left almost voiceless. It's time to change some of the rules governing the international economic order, to think once again about how decisions get made at the international level—and in whose interests—and to place less emphasis on ideology and to look more at what works. It is crucial that the successful development we have seen in East Asia be achieved elsewhere. There is an enormous cost to continuing global instability. Globalization can be reshaped, and when it is, when it is properly, fairly run, with all countries having a voice in policies affecting them, there is a possibility that it will help create a new global economy in which growth is not only more sustainable and less volatile but the fruits of this growth are more equitably shared.