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In a candid and far-ranging discussion, the journalist and author discusses at length the momentous changes in the global economy during the past two decades.

Chile: At the Forefront in an Era of Market Reforms

INTERVIEWER: Friedman's visit to Chile caused great controversy and still causes him a lot of embarrassment. Was there anything intrinsically wrong with the reforms in Chile?

CLIVE CROOK: I think the economic reforms in Chile were very sound. Chile was a controversial case for political reasons, not for economic reasons. ... Chile is now one of the best examples in the world of a developing country that reformed its economy thoroughly, and reaped benefits from doing so. It's conspicuous that Chile is being spared many of the setbacks that other economies in that region have suffered in recent years. I think a lot of that is due to the economic reforms. They have had impressive growth. This was an economy that was almost entirely reliant on a single commodity, copper. They managed to diversify efficiently, and they raised their standard of living as a result. So in economic terms, this was a successful experiment, and I think people would have been willing to acknowledge it as a great achievement much earlier if it hadn't been for the unpleasantness of the Pinochet regime.

INTERVIEWER: So you feel that the Pinochet regime tainted the Chicago economics [of Milton Friedman and others] to a certain extent?

CLIVE CROOK: In the minds of many people, the reforms in Chile were tainted by the political cast of the regime. It was not a democratic regime; it was a regime that trampled on civil rights, [although] perhaps not quite to the extent that the left around the world made out in later years. But nonetheless, there's no question it was an unpleasant regime, and the fact that they were the standard bearers in many ways for market economics in the Third World was a great pity, and I think it made other countries more resistant to the idea of market reforms than they otherwise would have been.

INTERVIEWER: Historically, we tend to think of this push for the free-market system starting with Margaret Thatcher. And yet, almost 10 years before she achieved anything [in Great Britain], it happened far away in South America. So does Chile have a special significance in the history of, say, the last 15 or 20 years?

CLIVE CROOK: I think Chile does have a special historical significance. It was right at the forefront of the reform movement. The Pinochet regime was willing to try a radical economic experiment, and it was the first country in the world to do that. The Pinochet regime brought in some very capable economists who put that reform program together. I think almost from the beginning, you could see that this was a very promising economic model, and I think that lesson did begin to be learned elsewhere in the world. [But] the fact that Pinochet was politically unsavory made it a very difficult lesson for many people to accept. That's one of the reasons that the political right—in Europe, one thinks particularly of Margaret Thatcher, and in America [of] Ronald Reagan—were perhaps more receptive to the Chile experiment, because they weren't so mortally offended by the political defects of what was going on in Chile. That was a pity for everybody else, because it meant that these sensible policies happened later than they otherwise might have done.

The accusation [has been] made that market reforms can only be done in a country with a political regime like Chile's. That has been, I think, a very powerful belief, a very important belief on the left. Now we now know that is wrong, because this reform agenda has been pushed through in many other places, including in countries with democratic systems. I think it [also tells you a great deal] that the successor regimes have kept the reforms in place. There is an understanding in Chile—and not just in Chile, but throughout Latin America—that in economic terms, these reforms did make sense.

Bolivian Hyperinflation and Shock Therapy: Cruel or Kind?

INTERVIEWER: You were actually in Bolivia. Was hyperinflation still raging at the time?

CLIVE CROOK: Yes, it was. When I visited Bolivia in the mid-80s, I saw the stereotypical scenes of people carrying cardboard boxes full of the currency. You could change an American dollar bill for literally a box full of Bolivian pesos—it was that bad. It was as bad as you've heard.

INTERVIEWER: And what did Jeffrey Sachs and Goni [Gonzalo Sánchez de Lozada] do in Bolivia?

CLIVE CROOK: The essential thing they did was to correct fiscal policy. Bolivia had hyperinflation because it was systematically collecting far less government revenue than it was spending on public programs of one kind or another, and it essentially was bridging the gap by printing money. That's the classic hyperinflation scenario, and in Bolivia it had run out of control. I think Sachs would be the first to say he did not bring any great economic insight to Bolivia; he just told them to do the very obvious thing, which was to balance the budget. Once you balance the budget, you don't need to print money to finance government spending, and inflation comes down.

The shock [therapy] of what Sachs recommended simply resides in saying, "Balance the budget now—not over the next five years, but right now." And in Bolivia, they took that advice very seriously and actually had a period of balancing the budget literally day by day. As the money came in, they wrote checks for public-spending programs with a daily limit on those expenditures that reflected the income that was coming in. So that was balancing the budget in the most rigorous way you could imagine, and it succeeded in bringing down inflation, as it was bound to do. The difficult thing was not the economics. Plainly, the difficult thing was the politics of making this policy stick.

INTERVIEWER: One of the things Goni has said was that Sachs was the guy who really pushed him to institute the reforms suddenly, to get it over and done with. Why is it better to get it over and done with than to spread the pain out?

CLIVE CROOK: Well, I myself don't think it's absolutely open and shut that it is better. I think it depends a little bit on the circumstances. There is still an argument about whether shock therapy is the right way to go. I think it should be understood and people should accept that there's no way to avoid the fiscal squeeze if you're to get inflation down and stabilize the economy. So the argument, as it were, is about the second-order issue of how quickly you do it. The shock therapy's got a bad name for itself as a terribly sort of inhumane and cruel way to do it. But of course the thinking behind shock therapy is simply that it's better to get the pain over with all at once, and that in the longer term, there will be less suffering, less

dislocation, less unemployment if you do it suddenly. I think that often works. [There are] cases where shock therapy's plainly worked very well; Poland would be one example. And I think in Bolivia, despite the disappointing growth later on for other reasons, shock therapy worked well there. The political commitment was there to make it work. But in other cases it's not obvious, to me at least, that shock therapy was the right way to go.

INTERVIEWER: Can you be specific about what some people see as cruel and inhumane about shock therapy in some of these regions?

CLIVE CROOK: Well, shock therapy is essentially about either raising taxes or lowering public spending. It really is as simple as that. These chronic inflation problems arise, not because monetary policy is mismanaged somehow, but because fiscal policy is wrong, because intakes don't cover spending, and that gap has to be bridged by the printing of money. So that's what you have to do. You either have to cut spending or raise taxes. And there are no easy ways to do that. In a poor country such as Bolivia, cutting spending may mean reducing subsidies on essentials, so that hits ordinary people, poor people, very hard. It may mean squeezing the social safety net—for instance, reducing unemployment benefits and things of that kind. That also hurts. The people are in no position to take extra pain.

One of the problems in many poor countries is that public spending is already quite small. The problem is essentially one about raising taxes [in] countries that can't raise enough in taxes. There's often very little fat on the public-spending side to be cut, and so that means that those cuts are painful.

INTERVIEWER: So what's the case for it if the pinch from it hits the poorest hardest? What else can you do?

CLIVE CROOK: Well, the case for getting fiscal policy right is that there's no alternative. You know, as Margaret Thatcher used to say—and she was right—a country cannot persistently spend more on public services than it's raising in taxes. If it does that, you get hyperinflation. And in Latin America, this mistake was pursued to the limit, and they got hyperinflation. And when that happens, the whole economic and social system begins to break down. So the answer to the question "Why do these painful things?" is that you've no choice but to do them.

There is an argument about whether doing it a certain way might be a little bit less painful than doing it another way, and myself, I think it varies from case to case. In some countries, shock therapy is the way to do it, get it over with; in other countries, maybe not. But there's not an argument in my mind about the fact that these changes have to be made; it's just a question of how quickly you phase them in.

INTERVIEWER: Bolivia's a small and not very important country, but it has a special importance in the history of the Latin American economies. Was Bolivia influential?

CLIVE CROOK: Essentially Bolivia was the first country to tackle hyperinflation in a very focused and resolved way, and it succeeded in dealing with the problem. This was at a time when many countries in Latin America had a problem with either very high inflation or outright hyperinflation, and so it was a very, very important and interesting lesson for them to see that a country like Bolivia could do it.

Must Free-Market Reforms and Democracy Coincide?

INTERVIEWER: Is it a coincidence that this great free-market reform swept through Latin America accompanied by a return to democracy in country after country?

CLIVE CROOK: Well, that's a hard question. I think many people would argue that there's a paradox here, that democracy should go hand in hand with market reforms. But I myself disagree with that view. I don't think democracy is all you need by any means for market reforms. And Chile, of course, shows that you can do comprehensive market reforms without a democratic regime in place. But what I think the rest of Latin America does show you is that people hate hyperinflation and are willing to pay a high price, willing to make political sacrifices in order to get hyperinflation out of the system. This is one of the things that Argentina shows you. In a way, I think you could say that the fact that you have democracy alongside market reforms in so many Latin American countries tells you that people value market freedoms and market disciplines, and especially low inflation more, I think, than economists used to think. ...

INTERVIEWER: But Bolivia is still poor and is seeing social unrest again. Argentina has just gone back into serious crisis. Some people say: "Well, Latin American countries ... tried all

these reforms, and now we're beginning to see that they haven't delivered the goods. It was a penniless one-way for 10 years; it's going to swing the other way." What's your view?

CLIVE CROOK: I think there is some disillusionment in Latin America—there's no question about that. They have had problems despite the reforms; growth in Bolivia has not been high. I think many people have been disappointed with not so much the inflation outcome, but [the growth outcome]. And now of course we have the case of Argentina, which in many ways was an exemplar of the determination to squeeze inflation out of the system and keep it out, and now we see a sort of financial collapse in Argentina, and a great deal of political turmoil, raising all kinds of questions for the future.

A couple of points do come out of this experience. One is that getting to sustainable high growth, getting to a steady high rate of growth, which countries in Latin America are capable of, is a difficult thing, and it certainly requires more than sorting out your inflation problem. That's what Bolivia has shown you. They did succeed in sorting out the inflation problem, but a lot else remained to be done, and a lot else was not done. ...

Beyond that, there are just certain problems that countries face that may retard their growth [regardless of] whatever they do in terms of policy. I mean, Bolivia is a small, geographically isolated country. To get to a point where they can grow at a rapid rate would be a heck of an achievement. I think you could say that low inflation is a necessary condition for getting to that high growth rate, but by no means a sufficient condition, unfortunately.

In Argentina's case, the problem there is a narrower one. I think Argentina could be a much more successful economy than it has been if it would deal with the persistent problem it has on fiscal policy. They don't collect enough in taxes to cover the spending that the government undertakes. And although they put a lid on that problem for 10 years with their [foreign] currency regime, at the end of the day, the strains were too much, and the old fiscal problem that monetary policy eventually has to deal with came through in Argentina. There, I think, if they could sort out their fiscal problems, their prospects would be much brighter. I think in Argentina they're in a position to do a lot better than Bolivia has done in terms of growth.

And elsewhere in Latin America there have been successful cases. Chile is one. Chile has done very, very well. It transformed its economic prospects with its comprehensive economic reforms, and I think there's a lot of grounds for optimism now in Mexico as well. Mexico's been doing better. So it's not all bleak by any means. But I don't deny there is some disillusionment in the region with the recent experience.

INTERVIEWER: So you don't agree that Argentina shows that free-market reforms don't work?

CLIVE CROOK: No, I don't agree that Argentina shows that free-market reforms don't work. What went wrong in Argentina was the failure to fix fiscal policy. Argentina hasn't actually been the most zealous free-market reformer in Latin America in any case. But I don't think what went wrong in Argentina has much to do with that. What went wrong in Argentina is that they aren't collecting enough taxes to pay the government's bills; that's the problem.

Shock Therapy in Poland and Russia

INTERVIEWER: [Was] shock therapy in Poland a success or failure?

CLIVE CROOK: Oh, shock [therapy] in Poland was a success; I think very few people would deny that. I think that people who are opposed to shock therapy would point to other countries to show that shock therapy doesn't work. Poland is not the example you would pick. They did a lot of reforms very quickly, and the results by and large have been good.

INTERVIEWER: But not so good for all the blue-collar workers in the heavy industries.

CLIVE CROOK: Well, that's true that a lot of Poland's blue-collar workers have suffered as a result of the reforms. But you have to think of the starting point. In a way, how could it be otherwise? What could a country like this hope for in that respect? So much of its labor force was engaged in doing the wrong thing. They had so many completely inefficient industries that the previous planning system had kept in place. To get from there to a modern, functioning, Western-style economy, which is what everybody in Poland wanted, was bound to put a burden on many of Poland's workers. I think it's absolutely right to say that policy should understand the plight of the losers and as far as possible address itself to that problem

and try to deal with it, but you aren't going to be able to make it go away. This is [an idea] that has to be grasped.

INTERVIEWER: And how about Russia? More mixed reviews there.

CLIVE CROOK: Although I think there are tentative signs that Russia is doing better now, it's been a far more difficult case, and I think there are many reasons why it's been more difficult. ... To put it broadly, [the main reason] is that the institutional legacy of communism was much more deeply entrenched in Russia than in other countries. If you think of countries like Poland or the Czech Republic, the communist economic apparatus was despised by the end of the 1980s. People just wanted to get rid of it. They wanted to repudiate the system that they'd been enslaved by, not to put it too strongly. And although what they were about to undertake as an economic project was incredibly difficult, the will to do it was nonetheless there. I don't think that's ever been true in Russia. I think that in Russia, there's much more ambivalence about the move from the old socialist planning apparatus to the new market system. So that's a very important point, I think: The political momentum behind reform has been weaker in Russia.

Perhaps related to that point [is] the further difficulty that many of the powerful people in Russia *before* the collapse of communism stayed in power afterwards, either running ministries or running state enterprises, making them private and enriching themselves in the process. You know, the privileged classes in Russia were not cleared out of the system in the same way that they were in most of Eastern Europe, so that has been another big obstacle to reform. And I think another reason why there's a lot of popular resentment and ill feeling directed at the reformers, a lot of people in Russia—with reason—think that they're being stolen from in a way that I think is not the case in the rest of Eastern Europe.

INTERVIEWER: So nearly all Russians equate free-market reforms with either inflation or corruption?

CLIVE CROOK: Yes, yes.

On Globalization and Its Critics: A Race to the Bottom?

INTERVIEWER: What is the battle of globalization about? What are the issues from the two different sides?

CLIVE CROOK: Well, I think one of the problems with the battle over globalization is that it's very difficult to know what the argument is about. The anti-globalists, the critics, have a very wide array of mutually incompatible objections to globalization, so it's very difficult to say, "This is the problem that globalization is perceived to have." I think people have so many different ideas about what that is, but obviously one could say that there are leading worries. The critics of globalization feel that globalization is essentially a process that exploits the poor, exploits workers, either in the developing countries or in the rich countries. And they also feel that it's a process which is fundamentally incompatible with sustainable growth in the world as a whole. So environmentalists are very suspicious of globalization, because they feel that rapid growth is going to put such a strain on the planet that we'll destroy our environment if we pursue this model. I guess those are the two main things: fear about what globalization means for the poor, and fear about what it means for the environment.

INTERVIEWER: Lack of control?

CLIVE CROOK: Lack of control is an important fear that the anti-globalists have—you're right. A common theme in the anti-globalist literature is the fear that globalization hollows out democracy; that we are living under an illusion in the West, and maybe even more so in democratic parts of the Third World, to think that voters, citizens, are actually controlling anything, or that governments are controlling anything. Everything is really being run by multinational corporations. Myself, I think this view is not just wrong but ridiculous. I don't see how anyone can seriously entertain it. But the fact is that anti-globalists worry about this a great deal.

INTERVIEWER: You were saying that in your opinion, some of the anti-globalists' views were ridiculous. But lack of control—is that a ridiculous fear?

CLIVE CROOK: I think the fear of lack of control is wrong. Really, you just need to look around the world to see that governments are still in charge of economic policy. Anti-globalists talk

about a race to the bottom, and I see no evidence whatever of a race to the bottom. If anything, what you see is a race to the top. Environmental standards are not being driven down by international trade, not being driven down by globalization; they're being driven up. Environmental standards are being raised in rich countries, not lowered, because of competition from the Third World, so you just don't see that happening. Anti-globalists also worry about a race to the bottom in terms of the welfare state: Because of globalization, we can no longer support public welfare programs of one kind or another, they argue. Well, where is the evidence for this? Compare Europe with America. Europe and America are intimately engaged in trade; there are no capital controls restricting flows on investment from Europe to America. So in a sense you could say that these two units are, to a very high degree, economically integrated. But taxes in Europe and public spending in Europe are much higher than taxes and public spending in the U.S.

Now, if the globalists were right [in saying] that international integration drives countries down to a sort of common level of public squalor, lack of provision, you would see taxes in Europe collapsing and European welfare states collapsing. You don't see that. Actually, you see the opposite: Taxes in Europe are rising. More is being spent on public services than ever before. Why is that? Because that is what people in Europe want. Europeans vote [for] governments that keep taxes relatively high and in return deliver relatively well-resourced public services. That is what Europeans want. Americans don't want that. They want low taxes and a smaller public sector, and that's what Americans get. So it seems to me the voters are in control. The political process is working.

The Protestors' Paradox: The Third World Welcomes Globalization

INTERVIEWER: If you look at the protests in Seattle in 1999, there's a dichotomy between anti-globalists who claim to stand for the poor world, the Third World, and the Third World itself. What about that?

CLIVE CROOK: There's a problem in the anti-globalist movement, and it's that a lot of critics of globalization see international trade as a process that harms the Third World. [But] most governments in the Third World, many of which are now democratic, are very keen on globalization—and in my view, they're right to be. It's very hard, I think, for a developing country to grow as quickly as it might if its exports are kept out of First World countries by

trade barriers, as they are. Much of the First World, especially in agricultural goods, is highly protectionist with respect to other developing countries. Now to my mind, from an alleviating-poverty point of view, that's a scandal. I don't understand why the anti-globalists aren't demanding that America and Europe lower their import barriers to agricultural imports from the Third World, because that would raise incomes in the Third World more than any aid program you could think of. Yet the anti-globalists who are supposedly in defense of the poor in developing countries are opposed to trade liberalization. It simply doesn't compute.

I think part of what drives the anti-globalist mind-set is just straightforward capitalism. There is a rejection of the market mechanism. The Third World, I think, has moved beyond that. I think it used to be the case that many governments of developing countries were anti-capitalist in their instincts, you know. In the '60s and '70s, a lot of these governments were socialist; now not so many are. The Third World is ready to embrace the market system, and I think it has learned, rightly in my view, that that's the best way to alleviate their poverty and get rapid growth. But in the rich world, in America and in Europe, many on the left are still opposed to the capitalist system in principle. It's not so much a view about how globalization works in practice; it's actually just a loathing of the market system. It is paradoxical that the Third World governments should now be more keen on markets than many of the anti-globalist protestors, but that's the way it is.

One of the worrying things about the anti-globalist movement is that it commands quite a lot of tacit support outside the ranks of the street protestors. I think very few people in Britain or America think it's a good way to behave, you know, to throw bricks through Starbucks' windows, or whatever it might be, but nonetheless, I think an awful lot of Americans and Europeans feel that the protestors have a point, and it's about time that Western governments began to address that point and actually deal with the argument. One of my problems with the way the political process in the West has dealt with the anti-globalization movement is that the arguments are not being recognized and taken seriously. Even though I think the anti-globalists' arguments are by and large wrong, it is very important in a democracy that they be addressed and answered. And I think Western governments have been doing an absolutely awful job of that.

Can Globalization Be Reversed?

INTERVIEWER: Is globalization inevitable, or do you think it could be rolled back?

CLIVE CROOK: I don't think globalization is inevitable. I think it has a lot of forward momentum, because I think a lot of secular economic forces are pushing in the direction of globalization; the main one is technology. A lot of the burst of globalization that we've seen over the past few years is technology-driven—the revolution in the telecom business, the Internet, and so forth, reducing distances and bringing the world together. That's a terribly powerful force for economic integration, so it would take something to stop it, even more to reverse it, but I don't think it would be impossible. I think you can imagine political circumstances in which governments decided that they'd had enough of integration and began to raise barriers to trade, increase financial regulation of one kind or another, and generally try and turn the clock back. And if they tried hard enough to do that, I think they might succeed.

Something that is important to remember is that globalization was, in fact, reversed during the 20th century. After 1914, globalization stopped, and it wasn't really until after 1945 that the trend resumed. Now you might say that two world wars and the Great Depression in between represents a fairly extreme scenario. If it takes that to hold back globalization, then perhaps that's grounds for thinking globalization will proceed. But, you know, within living memory we saw globalization halted and reversed. I think people should remember that. It isn't inevitable; we've seen that in the past century.

INTERVIEWER: Why, then, do you welcome more trade, more globalization? What's the benefit from that?

CLIVE CROOK: I think there are many reasons to advocate trade liberalization, to advocate an expansion of trade. To begin with, there are many economic reasons. The standard classical economic rationale for trade is that it allows countries to exploit comparative advantage, and essentially that means that countries can concentrate on doing the things that they're relatively good at, and they derive an economic benefit from that specialization. I think that's true. But I also think there are other, broader economic benefits from trade. If you're open to trade and if you're open to foreign investment, you're open to new ideas; you're open to new

technologies. If your companies face competition from other companies, that makes them work harder, makes them more efficient. And so I think there's a collective global benefit from that kind of intense competition and interaction.

But I also think it's important to remember that in addition to the economic arguments, there is a political argument for trade. In my mind, at the end of the day, the argument for free trade is an argument about freedom. If a government puts a tariff on imports, or even bans imports by putting a quota on them, that is an interference with my freedom. The government is telling me I can't buy such and such a good. What right does the government have to do that? If we live in a free society as we like to suppose, that freedom ought to extend to the freedom to buy this from abroad.

The Asian Financial Crisis and the Need for Reform

INTERVIEWER: Thinking about the Asian crisis in '97, just tell us about the nature of the global economy. Is it very fragile?

CLIVE CROOK: I think the Asian financial crisis of 1997-98 does show you that there are fragilities in the global economy that are more serious than we'd thought. I think that advocates of globalization, advocates of market economics, have to recognize that this was a big setback; we shouldn't shrug it off. In particular, I think it showed us that financial contagion is a worry; that in an integrated financial system, financial problems in one country can spill over into others, and the consequences can be quite severe. So I think there are important lessons to be learned from that episode, and we should be attending to reform of the international financial system with perhaps more urgency than governments have been showing.

INTERVIEWER: Do you expect events like this will ever repeat?

CLIVE CROOK: It's possible that there will be repetitions of the financial crisis that we saw in Asia. There were fears that what happened in Argentina might create a cascade of financial emergencies in much the same way that the problems in Thailand spilled over into other countries in '97. So far that hasn't happened, and I think that's because of two reasons. I think that the markets understood that Argentina had particular problems that were unique to

itself, and also I think the financial collapse in Argentina, by the time it happened, had come to be so thoroughly expected that the markets had discounted it, and that helped to contain the contagion effect. In East Asia, in the late '90s, there was much more surprise that things unraveled as they did, and I think that helped the panic to spread, and that helped the contagion to spread. But the fact that Argentina did not provoke an international financial crisis—or I should say has not yet provoked an international financial crisis—I don't think that should lead us to conclude that there won't ever be another problem like the one we saw in East Asia. I don't think that the financial regulatory system has been repaired anything like well enough to prevent those kinds of problems happening again. I think it is a risk, and we should be paying attention to it.

The IMF During the Asian Crisis: Criticism and Explanation

INTERVIEWER: What is your view of the widespread criticism of the International Monetary Fund [IMF]?

CLIVE CROOK: I think the scale of what happened in East Asia caught more or less everybody by surprise, including the specialists at the IMF. Maybe, you know, with the wisdom of hindsight, people were saying, "Well, it could have been predicted," but as I recall, everyone was surprised. I was surprised at the scale of the thing and the speed at which it spread. I think a lot of people criticize the IMF severely for the way the East Asia crisis unfolded. I think most of the criticisms concern the way the IMF dealt with the problems once they were apparent rather than criticizing them for not seeing that something was wrong beforehand.

INTERVIEWER: But what did the IMF do in Asia that people were unhappy about?

CLIVE CROOK: I think there was a feeling that their standard prescription for fiscal stabilization was inappropriate in this East Asian context. The default mode of IMF operation is to insist on fiscal retrenchment—that is to say, higher taxes, lower public spending—in order to stabilize the economy. And the feeling in East Asia was that this went too far. I think people like Joseph Stiglitz have argued that it was also a mistake to raise interest rates as much as the IMF recommended they be raised in countries like Thailand and Indonesia, and that worsened the problems in the countries. Stiglitz has emphasized that raising interest rates created lots of bankruptcies that might otherwise not have happened, making the adjustment

problem more difficult. I think some of this criticism is unfair. Looking back, the IMF acknowledges that some of the reform plans were not quite right, that some of the fiscal tightening was too much, and that some of the actions they took to raise interest rates were also too strong. But it's easier to say that after the event than it was at the time.

At the time there was a genuine dilemma, which I think critics such as Stiglitz don't properly recognize, and that was that these countries were facing such financial instability that there was a risk that their currencies would collapse. Many of the currencies did depreciate very strongly, but the IMF was intent on limiting the fall in the currencies, because a collapsing currency very quickly leads to high inflation. And I think that was a legitimate concern. And so the IMF recommended relatively tight monetary policy in these countries in order to defend the currency with the aim of stabilizing the economy sooner. Maybe they overdid it in a couple of cases. But I think it was a genuinely difficult economic problem that they were confronting, and the mistake they made, if it was a mistake, was not as obvious as many of their critics are making out.

INTERVIEWER: It's easy for us to sit here comfortably and discuss this in terms of what you do to the currency, but it can mean there's tough times for the people at the street level, doesn't it?

CLIVE CROOK: It does, but I think the IMF is aware of the problems and very, very mindful of them. I mean, the IMF understands very well that it's operating in a political minefield; that its actions are being closely scrutinized. It knows better than anyone that if the policies they recommend provoke political protest, if in the worst case you get riots, people out on the street, the IMF doesn't need to be told that they're going to get the blame for that. They're quite mindful of that issue. I'm sure IMF officials are just as keen as everybody else to cushion the blow for the weakest parts of the populations in the struggling economies. And even cynics should remember that it's in the IMF's own interest to soften that blow if they possibly can, because the IMF only suffers as an institution if those problems get too severe. But, as always, it's a question of alternatives. If you have a failing economy, a collapsing currency, a bankrupt government, the IMF is only ever called in when things get that bad, right? If you're starting from that position, very often there's no easy way back to stability. Whatever you do involves difficult times for lots of people.

INTERVIEWER: One of the common charges is that the IMF more or less just does Washington's bidding.

CLIVE CROOK: I think the accusation that the IMF has been too keen or too willing to do America's bidding in foreign policy actually does have some weight. I mean, the Fund is in a difficult position here. The United States is the most powerful of its shareholders, and it's very hard for the Fund to resist political pressure from the U.S. But to my mind, that's more a criticism of U.S. foreign policy than it is of the Fund. I think the United States should be more careful to preserve the operational independence of the IMF than it has been, because I think that the IMF can serve everybody's interest, including America's, in the longer term better if it's both free from political interference and seen to be free. But I think the critics who say that the IMF has occasionally succumbed to American pressure are right; unfortunately that's true.

New Rules of the Game

INTERVIEWER: Define the "rules of the game." What would new rules mean in practical terms?

CLIVE CROOK: A lot of people argue that global economic institutions need to be reformed in light of what happened in East Asia, and this is something that the anti-globalists also emphasize; that the existing institutions are illegitimate and non-democratic, and reform is needed to be put in place to repair them. I have some sympathy with some of these arguments. I do think, for instance, that global financial regulation needs to attend much more carefully to the issues that were raised in East Asia than it has. Immediately after the East Asian meltdown, there was a lot of interest in reforming the international financial system, in coming up with new codes of behavior—national financial regulation, for instance, to make domestic banking systems more secure. [But] progress on this, after the event, has actually been very disappointing. I'm afraid it looks as though once the immediate crisis was over, the political will to deal with these problems began to go away. I think that's a great pity, because I do think, you know, one should never rule out the possibility that a crisis like the one we saw in 1997-98 will occur, and it would be very nice to have reformed financial systems, especially bank-regulation systems, in place before that happened. But it looks as if we won't.

Anti-globalists also argue that institutions like the WTO [World Trade Organization] and the IMF and World Bank are anti-democratic, and they would like to see more direct political accountability. There I'm more skeptical myself, because I think these institutions are inevitably so remote from national politics that it would be very difficult to design direct channels of accountability to run the changes, as it were, directly from voters to the WTO without the intermediation of national governments. I don't see how that can work. What I think does need to be put right is that these institutions should be more open than they have been. I think the IMF has gone a long way to put that right. Now if you go to the IMF's Web site, you have more information than you ever wanted about what the IMF is doing, and the same is true of the World Bank. These institutions are now much more open to public scrutiny than they were before. But I think the WTO still has a long way to go in terms of transparency. A lot of the negotiations of the WTO are conducted in secret, and I think the anti-globalists have a point when they say that's democratically bad.

I'd like to see that put right. So I think, yes, let's have these institutions open and accountable in that sense. But I think political accountability, democratic accountability, still has to run through national governments. At the moment, I don't see an alternative to that.

Trade Blocs: Globalization at Work, or the Opposite?

INTERVIEWER: Do you think the European Economic Community [EEC] and the euro are significant forces in the global movement, or are they working in another direction?

CLIVE CROOK: Europe is engaged at the moment in a historic project of integration. We've just got the euro notes and coins in circulation. And Europe has an unfinished agenda of political integration. It's also about to open up to the East and accept a lot of new members, so some people argue that this is globalization at work; [the fact that] the European Union may be increasing integration within Europe is a further sign of globalization. That's not so clear to me. I think many of the designers of the European project—many of the advocates of the euro, for instance—see European integration as an alternative to globalization in some respects. I think the ambition of many European politicians and the leading euro visionaries is to create a political and economic entity in Europe which is capable of challenging the United States in various ways. I don't think they think of it as a stepping stone towards a more efficient global economy or a better-run global world. I think they think of it mainly as a way

to create a counterweight in the world to the U.S. Now, I'm not so sure that's globalization; that's almost the opposite. It's almost entrenching in regionalization, and I think there are signs in America that the trend might go the same way there.

There's a lot of interest in America in expanding NAFTA within the Americas. One can begin to see discussions of a world of large trade blocs that might almost be the opposite of globalization. It's something I would very much regret seeing, but I think it is a possibility, and it is something I think that many, many of Europe's leaders actually have in mind.

The Long View: Decades of Change in the World Economy

INTERVIEWER: At the end of our second program, we're talking about the mid-90s more or less, and we've seen free-market movements sweep all the way around the world. So just contrast it with the world as it was, say, in 1945 or 1975.

CLIVE CROOK: Well, I think if you compare the world in '95 with, say, the world in 1975 or the world in 1945, you do see remarkable differences. I mean, there has been an extraordinary increase in economic integration over both those time spans, since 1975, and even more so since 1945. I think people forget actually just how closed many of the world's economies were in 1945. Economic integration came to a stop and was put into reverse actually after 1914, and most of Europe was a patchwork quilt of closed economies. You had the Iron Curtain; there was a system unto itself in the Soviet Union and Eastern Europe. Now all these countries are intimately connected through a global capital market with very few controls. And in trade, although there are still exceptions to this, notably agriculture, there have been really dramatic strides towards economic integration. So I think now one can talk in a meaningful way about the world economy. There is such a thing as the world economy. Almost every economy depends on others in one way or another. And that actually wasn't true in 1945, and it was much less true in 1975.

INTERVIEWER: What do you see ahead for the United States?

CLIVE CROOK: I think America is much more likely to insist on a narrow calculation of its own interests. I think you saw that in the way it conducted the battle in Afghanistan. Basically it said, "We'll do it; we don't need you," and they went ahead and did it for themselves. And I

think that mind-set is going to affect a lot of international economic diplomacy. There's going to be a much more rigorous assessment of where America's narrow interests lie. So I don't think America's going to go multilateral because of September 11; I think it's going to go the other way.

I do feel idealistic about globalization, and not just on the economics; I think it's a political issue as well. This is about individual liberty. I think this needs to be pointed out. It's the association that Milton Friedman made in *Capitalism and Freedom*: Freedom is indivisible. To my mind, globalization is largely about people being allowed to get on with their lives, and that includes trading with people in other countries. So I'm for globalization on grounds of liberty first and foremost. Now, will it raise economic growth in the world? Will it abolish poverty? It won't abolish poverty by itself. I think that's a naïve [viewpoint]. All kinds of other policies have to be gotten right. Globalization by itself is not a panacea. I think what is true is that a lot of countries in the world have no hope of even denting poverty unless they can globalize. Countries like India [and] China need global integration to deal with their poverty problem, but globalization by itself won't do it. It's a necessary condition, but not sufficient.

INTERVIEWER: What will it take, then?

CLIVE CROOK: It takes a combination of policies. Openness is one of them—that's the globalization part, in my view. Be open to foreign capital; be open to foreign competition; be open to imports. Find the things that you can do well and concentrate on those. That's the openness side of it, and all that helps. But, in addition, you need competent domestic policy. You need good fiscal policy; you need to balance the budget over the course of the economic cycle; you need to get monetary policy right. In countries like China and the Soviet Union, you need to establish the rule of law so that people feel secure in their everyday lives, and also in their economic activities. You need to put in place social welfare systems that ease the pain of transition for the disadvantaged, for the weakest members of society. You need an education system that can supply people with the appropriate skills and with the flexibility to change as conditions require from one field to another. The demands are enormous. I mean, there is an awful lot that needs to be gotten right to maximize the growth potential. Globalization, I think, is important, very important, but it's not the be all and end all.