Nemat Shafik, the vice president for private-sector development, infrastructure, and guarantees at the World Bank, is the organization's spokesperson on private-sector development in developing countries. Born in Egypt, she joined the World Bank in 1989 and has expertise in Eastern Europe, the Middle East, and North Africa.

Shafik discusses globalization and its consequent challenges for countries throughout the developing world. She addresses such topics as the impact of privatization on these economies, microfinance and impoverished populations, and corporate, government, and worker responsibility in changing labor standards.

The Politics and Economics of Privatization

INTERVIEWER: We're talking about privatization. So what's your sense of the politics of privatization and the economics and the balance between the two?

NEMAT SHAFIK: Well, I think the experience with privatization is very compelling and clear. We got the economics right. Virtually every major study of the impact of privatization that's been done in the last two decades has shown that there have been huge efficiency gains from privatization. Where we failed was on the politics, which was neglecting who won and who lost; who got those benefits and how they were distributed in society. And I think much of the backlash against privatization is driven not by the failure of privatization to deliver on the economic front, but the failure of privatization to really treat the political consequences effectively.

INTERVIEWER: So why do we get the politics wrong?

NEMAT SHAFIK: I think we approached the problem as technocrats, be it the privatization that occurred in the UK to what happened in Eastern Europe to what's happening today in developing countries. We were focusing on the technocratic problem of how to make these firms more efficient after languishing as inefficient state enterprises for years and years. So it was a legitimate objective, but I think we were politically naïve and somehow thought that if we could just get these state-owned enterprises to operate more efficiently, the world would stand up and applaud, when in fact what happened was the world said, "Efficiency is all well
and good, but how come a few people got rich and a lot of workers got laid off?" And we often didn't have a good answer to that.

INTERVIEWER: When you say "we," who are you talking about?

NEMAT SHAFIK: I think the people who think about economic policy, and that includes officials and governments, and includes people who are working in organizations like the World Bank and the IMF; people who are advising governments; and also the whole academic community who was working on these issues over the past couple of decades.

INTERVIEWER: ... What you're talking about is really a global issue, isn't it?

NEMAT SHAFIK: Very much so, something that affects both the industrial countries and the developing countries and the transition economies of Eastern Europe.

INTERVIEWER: Why do we see so much privatization? What was pushing it?

NEMAT SHAFIK: Well, it was clear that the older approach of having state-owned enterprises and relying on them was really not working. And most countries, to differing degrees, were literally hemorrhaging money, [because] these state-owned enterprises were so inefficient, and many countries just could no longer afford it anymore, and that includes countries ranging from the UK, who first approached the privatization of British Telecom because they needed to invest more in telecommunications and they just couldn't support it under the [existing] budget. And the same problem occurred in Tanzania and in most of the transition economies. They just couldn't afford the inefficiencies of state-owned enterprise, so that's why we saw so much privatization. That was the original motive. And it wasn't often very ideological. It was just pure, "We can't afford it anymore."

... I remember being in Czechoslovakia at the very beginning of the transition, and the problem was extraordinary when one thought about it. I mean, here was an economy where 98 percent of GDP was owned by the state. I mean, even the little kiosk that sold cigarettes on the street corner was a state-owned enterprise, and how you go from that situation to trying to build a market economy was just a problem that humanity had never faced before.
So it's not surprising that there were mistakes made in the rush into privatization, in particular in Czechoslovakia and in Russia, where the mass privatization program was what they chose to do. The careful individual privatizations like those that were done, say, in the UK, that was not an option there. You were looking at literally hundreds and hundreds of thousands of state-owned enterprises. In Czechoslovakia they would have been privatizing into the 23rd century, so that was not an option. ... I think one has to be realistic about the choices we faced at that time.

Having said that, you know, hindsight always has 20/20 vision, and so we can go back and say, "Well, what they should have done is separate it out, and [they should have] done some enterprises quickly and held on to others until they had the right institutions in place." I think one of the big mistakes in retrospect, with 20/20 hindsight, is that the smaller enterprises were actually pretty successful when they were privatized quickly in the transition economies. There weren't big regulatory issues; they didn't need institutions in place to govern them, and they could have pushed much harder and much faster, even up to the medium ones. Some of the complicated companies like banks, like some of the infrastructure sectors, clearly needed more time, and I think we didn't pay enough attention to the kind of regulatory and institutional preconditions, making sure the rules were clear early on so that once you privatized, you didn't risk having monopolies, having inefficiencies, and, frankly, having lots of corruption as well.

**Changing Theories of Development: Teaching the World to Fish**

INTERVIEWER: Let's talk about development theories. In our film, we're looking at the issue over the past few decades or so. Just talk about how development thinking has evolved.

NEMAT SHAFIK: There's been an enormous change. I mean, in the beginning we focused so much on the need to invest in physical capital—you know, the old adage that rather than give a man a fish, you should teach him how to fish. So in the early days, organizations like the World Bank and most development thinkers focused on financing fishing rods. We financed a lot of fishing rods in various ways. But the emphasis shifted away from focusing on physical capital, physically investing in things, to investing more in people. And so we focused much more on teaching people how to fish—building human capacity, education, and health, etc.
In the '90s, there was another real shift to not just thinking about buying fishing rods and teaching people how to fish, but to worrying about, "Is this guy going to fish sustainably? And is he going to over-fish? And how shall we work to make sure that the fishing that occurs is environmentally sound and sustainable?" And perhaps today what I see happening in the current decade is not so much focusing on buying fishing rods, teaching people how to fish, and worrying also about sustainability, but in addition to that, worrying about how do we create the local knowledge so that they can invent new and improved fishing rods to cope with the inevitable technological changes that are going to occur in the future. ... All those other things are still important, but really, the importance of knowledge and ideas as being the real source of what causes economic growth and development has emerged as a central issue.

INTERVIEWER: When our production crew was in Tanzania, we interviewed James Adams [formerly the World Bank’s country director in Tanzania], and he talked about ... [the tendency in the past] to provide assistance, and he said: "Look, you know, in the '70s we believed this. We were out trying to make these places better, but we were wrong." Talk a bit about that, using Tanzania as an example.

NEMAT SHAFIK: Well, there's a very famous example in Tanzania where we financed a huge shoe factory in Tanzania, which I think had the capacity to provide shoes for all of Africa. It was enormously huge, and it was really part of that buying-fishing-rods mentality: Let's finance big production capacity, and that will bring development. And it was a terrible failure. It never operated. It never produced any shoes at all, and it burdened Tanzania with debts it had to repay in order to pay for that factory. It was completely inappropriate technology. It was way too mechanized. It didn't create jobs.

So we certainly did make mistakes along those lines of financing these huge state-run enterprises. We don't do that anymore. I think we've realized that enterprises and industries are really best financed by the private sector. But we can play a hugely important role in creating the environment for those firms to operate effectively, so that means making sure that they have access to electricity [and so on].

In India, for example, recently we found that half the small businesses in India have to have their own generators because they can't rely on the grid, and you can't produce unless you've
got a steady supply of electricity. So we can work to make sure that access to basic services is there, but let the firms run themselves. We've also had some good experiences with helping the banking system provide credit to small businesses.

**Microfinance and the Creditworthiness of the Poor**

INTERVIEWER: ... Talk about [microfinance] as a concept now. What's it all about?

NEMAT SHAFIK: I think microfinance is a wonderful example of how you can use market forces for the poor. Markets and liberalization don't just have to be about multinationals and globalization. It really can be about getting services to the poor. The old approach in microfinance was [through] state-sponsored institutions which basically doled out charity to poor people. They called it loans, but they never got repaid, so they really were charity, and as soon as the willingness to give charity faded and the donors ran out of money, that was it. The access that these small businesses had to financing disappeared.

Today the approach is completely different. Today there are about 10,000 microfinance institutions operating in the world. Even though there are 10,000, they only reach about 4 percent of the potential market of poor people in the world who we think are creditworthy and who could benefit from microfinance services. The best ones, the best programs, the top five microfinance institutions today, are serving almost half the market, which tells you that the other 9,995 institutions are still doing rinky-dink, very small type of lending.

And the reason those top five are so good is because they are run on a commercial basis. They have loan-recovery rates that would make Citibank envious. They are recovering 98, 99 percent of their loans. And the interest rates, I have to say, are quite high. They're quite high, often in the range of 30, 40 percent. But the fascinating thing, and the reason they're so high, is because the cost of delivering loans, little loans of $100 in Africa or about $500 on average in Latin America to very small borrowers is quite costly. You've got to have loan officers visiting them on a daily or weekly basis to collect repayments, and so it costs a lot to deliver these loans. But what's fascinating is that poor people are willing to pay, and they're incredibly creditworthy, because the alternative for them is not getting any access at all. So there I think it's a really wonderful example of how markets can work to the benefit of the poor.
INTERVIEWER: The creditworthiness of poor people was something that [Peruvian economist] Hernando de Soto talked about a lot, and the difficulty of raising any kind of capital when you have no property. I mean, you must see that a lot.

NEMAT SHAFIK: All the time. And what's interesting about microfinance is that the industry quickly realized that they couldn't rely on traditional approaches to lending when you lend to the poor. They don't have collateral; they don't have title to their homes; they don't have title to any property. So what do you? And so the whole principal is based on reputation lending. I'll give you $50 pretty much based on nothing, but if you repay me that $50, next time I'll give you $100, and if you repay that, I can give you $150 next time, and we quickly build up a relationship where, because you know you want more money in the future, you will always repay. And nowhere along the way do I actually get title or collateral from you. And I think that completely different approach to evaluating the creditworthiness of the poor has proven to be incredibly successful by virtue of the very high repayment rates that these institutions experience.

Caring for the Poor: Self-Interest Replaces Altruism

INTERVIEWER: Let me ask you a general question about the developing world and poor people: Why, other than for vague humanitarian concerns—not that that is not legitimate—but why should we care?

NEMAT SHAFIK: In some ways I think that's one of the important upsides to globalization. In the past, other than charity and altruism, you didn't really have to care, but today it's very different, because those poor people are accessible to us and us to them in a way that never occurred before—issues of migration, issues of communication—because they're right next door. Before they didn't know how we lived, and we didn't know how they lived, and now we know, [and now they know]. And there are so many cross-border issues—not just trade and knowing how our goods are produced by them and vice versa, but also issues of communicable diseases which are cross-border; migration, which is cross-border. And so if we don't solve the AIDS problem in Africa, we will always have an AIDS problem in the rich countries. ... Similarly with the environment. The rainforest matters as much to us as it does to the people in Brazil, and so, because globalization has made so many problems truly cross-
border, the well-being of others in other parts of the world isn't just about altruism anymore. It's just as much about self-interest.

Who Holds the Key to Improving Labor Standards?

INTERVIEWER: There has always been this kind of huge divide between rich and poor, you say, [but] now we are able to know about it much more quickly and see it up front. Can you talk about the political consequences of that?

NEMAT SHAFIK: Well, that's a very difficult issue. The politics are very complex. [Let's take sweatshops as an example.] On the one hand, [multinational] companies are subjected to huge reputational risk. And what's an interesting twist is that many of these sweatshops are not owned by the multinationals whose brands are at stake; they're all subcontractors. And the companies, the major corporations will say: "These aren't my factories. I'm just buying from them." So where does their accountability end and begin?

I have been involved in working with many corporations and trying to deal with this issue, and when they put pressure on the factory owners, they also run the risk of cutting them off, and then the people in those factories lose their jobs. And it's not clear that that's a good outcome. I think the people who are buying sneakers in the West, if they felt that their desire to see better labor standards in those countries meant that those people lost their jobs, that's not what they would want either.

The trade unions are also in a very difficult situation. Some of the more narrow-minded trade unions are only concerned about protecting jobs in the West and so they see the anti-sweatshop movement as a way to protect their own constituency. The more enlightened trade unions I think would like to see this movement provide voice for workers in developing countries and use that as a way to organize workers in developing countries, and that, I think, is a much more productive approach. Trying to argue that workers in developing countries should be getting the same wages and benefits as in the industrial countries really doesn't make sense. It defeats the whole point of competitive advantage, and I think the union movement has moved away from that more naive, frankly somewhat protectionist position. But ultimately getting workers voice in developing countries to protect their own interests has to be the solution, I think. It can't rely on do-gooder consumers in the West, and it can't rely
on donor and external and UN-type organizations, and international conferences. In the end there's no substitute for workers defending their own rights in their own countries and governments having regulations about labor standards that they are actually able to enforce.

INTERVIEWER: The awareness issue is intriguing, because, [in the developed countries, it seems, there are a growing number] of people who [want to know] where their sneakers are made ..., people who don't want to buy diamonds so much because they know about the conflict [in West Africa]. ... Pashminas, which a lot of women have—where do those come from? It's something that we all think about [more often]. Does that go through your mind?

NEMAT SHAFIK: Personally, you mean? Yes. [But] I don't think that in the case of labor standards a consumer boycott is the right approach. I think boycotts work in very special situations, for example, the apartheid regime in South Africa; that was a different type of political phenomenon. But I think we're much better off trying to support improvements in the country. Now, I think it's good to put pressure on the industry leaders and the companies with big brands and reputations to protect, and they will set standards for the industry as a whole. I think that's certainly the case. Clearly companies that have been put under enormous international scrutiny have had to raise the bar, have raised their own bars, and by virtue of that, have raised the industries' bars. That's good, but in the end, targeting a few companies, the ones with the big brand names, those are just a fraction of 1 percent of who's producing sneakers and t-shirts and diamonds out there, and the guys who are unknown will always stay under the radar screen of public scrutiny, and public scrutiny and consumer boycotts only work for those with the reputations to protect, and they're already probably better than the industry average.

So ultimately, I think, we really have to come to grips with the capacity of governments in those countries to protect labor standards. If you look at most countries today where a lot of these sweatshops exist, on the books, their labor laws look perfect. They're completely compliant with all international standards on minimum wages, on harassment in the workplace, on collective bargaining. Fact is, none of them are implemented, and none of them are implemented because the governments themselves are weak, and also because the workers in those factories are not organized and are weak. And I really do think that we need a power to [counter] the power of capital, and workers do need to have rights to speak out to
bargain collectively, and it's only when that occurs that we will actually be able to resolve the sweatshop issue. It's the same story that [we saw] happen in the industrial countries during the Industrial Revolution. You only got things like minimum wages and maximum workweeks when workers got organized.

**The Protestors' Role: To Provoke, Not Provide Solutions**

INTERVIEWER: Let's talk about [the world conference in] Prague and your experience there. What was that like, being in the middle of [a street protest]? Where's this anger that you see on the streets coming from?

NEMAT SHAFIK: Well, the protest movement is multifaceted, and the anger is multifaceted, but there clearly is a sense of losing control and a sense of alienation from this phenomenon labeled globalization. But I think what struck me the most was how the alliances keep shifting and what the consequences of that are. I had the experience of being in a meeting with some of the major NGOs [non-governmental organizations] to talk about environmental and social issues in many of the projects that we finance, and there were about 20 representatives of a lot of the major NGOs—Friends of the Earth, Oxfam, etc. And there we were, sitting in this conference room in Prague, having really quite a productive discussion about environmental standards and mining projects and rights issues and how we deal with oil and gas projects, all that kind of thing, and in the middle of this, the protest started. And the protests were incredibly vocal and loud, and there was a huge group of Italian anarchists who were flinging Molotov cocktails, and we could literally see them out the window.

Soon thereafter, we all had to be evacuated from the buildings through the Prague underground, so we were all kind of scurried by the police into this underground passage and taken to the underground. And there we were, trapped together in the Prague underground for about an hour, with these train guards. There we were, all the dark-suited officials of the World Bank and the IMF with the sandal-footed NGO types from Oxfam and Greenpeace and also many of the developing countries' NGOs, and it was very [disconcerting]. You know, the whole question of who's on which side anymore and how the alliances have shifted, and were these NGOs allied with the Italian anarchists who were blockading us, and what were they doing dialoguing with us? And I could see that they themselves were somewhat conflicted, and the blue suits were also conflicted about who they were hanging out with. And I think that's
what is so interesting about globalization, that the old structures and the old institutions and
the old lines aren't working anymore, and I think we're at a stage where there's this
extraordinary chaos in international organizations, in the international rules of the game, that
we're trying to redefine, and we're not there yet. And I think like in any chaotic situation,
when you're in the middle of it, you don't see the way out. But I think what we're observing,
the series of protests, the series of engagements, is part of the process of coming towards
some new structure for managing a global economy.

INTERVIEWER: [At the protests in Quebec], Jorge Casteneda [Vicente Fox’s former foreign
minister] in Mexico said, "Look, protestors are a pain, but I'm glad they're there, because they
force issues on the agenda." Can you feel that force?

NEMAT SHAFIK: Yes, very much so. And I think in the early days, when the first protests
started, I remember feeling very frustrated, because their rhetoric was so abstract. [The
protestors claimed] this was about economic justice, [yet] they had no alternative program.
They weren't saying, "We think your solutions are wrong, and these are better solutions." So it
was very hard to have a dialogue with someone who is just saying, "We are critical; this is
anti-globalization; we don't want trade; we don't want growth." Yet the more I thought about
it, the more I realized that if one looks at it historically, the role of protest movements isn't to
provide solutions; it's their job to be critical. And then it's the job of the insiders, the people in
the system, in their response to those protests to come up with new solutions. I think that's
where we're at now, and I do think it's healthy that we have them, you know, banging at the
gates. I think the violence is unfortunate and unnecessary, but I think the criticism is probably
healthy for us, and I think I can see in my own work how our own approach to working and
thinking about development issues has changed enormously, partly in response to those
protestors.

Changing the Rules of the Game—and the Rule Writers

INTERVIEWER: We're at an interesting time, [when] a lot of people are saying we've got to
rethink the rules of the game, you get this movement there.... What does that term mean [to
you]? What's the game?
NEMAT SHAFIK: And who's writing those rules? I guess the game is this new global economy, and the rules take on many forms, and I think that's one of the most interesting things. The rules used to be international treaties of various sorts, like the general agreements, the tariffs on trade which governed the rules of international trade, and then there are a whole series of rules which govern international financial transactions and that kind of thing. But what's interesting is also there are now a whole new set of rule writers. The mining industry, for example, has voluntarily gotten together and realized, "We have a terrible reputation; we're one of the dirtiest industries in the world, and in order to clean up our act and to improve our reputation, we need to collectively come together and set voluntary standards and rules." And so now suddenly the 26 biggest mining companies in the world are also rule makers. Now some critics would say: "Wait a minute; this is putting the fox among the chickens. You can't let them write their own rules." Now, ultimately you will need government to actually regulate these firms, but as a step in the process, it's probably quite healthy.

The Legitimacy of NGOs, Then and Now

INTERVIEWER: Talk about [NGOs] and the question of their legitimacy.

NEMAT SHAFIK: You know, in the past, when many governments in developing countries were essentially authoritarian, I think civil societies and NGOs had enormous legitimacy because, frankly, the governments were not legitimate. So certainly when they spoke about abuses, about poor environmental records, about programs that were resulting in worsening poverty and corruption, they had enormous credibility. I think in the 1970s, there were 30, 40 democracies in the world; today there are well over 100, and most countries are democratic in some form. You can question how democratic, how good their elections are, but, you know, elections even in [the USA] are sometimes a bit problematic.

But having said that, most developing countries are now governed by legitimate, democratically elected leaders. They quite rightly say, "We represent the people, and why should we listen to some particular NGO which has a particular agenda? And why should we give them more weight in the public discourse than the mass of citizens who chose us?" And that [kind of] backlash really has occurred only in the last year. It really came out very clearly in Prague, when many developing-country leaders got up and said, "Look, we're the democratically elected leaders...." One of the things that we struggle with in the World Bank is
trying to understand who we should speak to, who represents civil society, because you don't
know who they really represent in terms of numbers.

INTERVIEWER: What does "civil society" mean?

NEMAT SHAFIK: Well, it's so amorphous. It has tended to mean NGOs, but it also refers to
intellectuals, academics. [Civil society] is really not a category; it's saying you're everything
except the government, and that's why we struggle so much in defining who to talk to. ... We
need to have a dialogue with civil society about poverty, but who do you invite to the meeting,
... and how many people from developing countries versus industrial countries [do you invite.
It gets really practical.]

There's an enormous split in the interests of most non-governmental organizations. From the
industrial countries' perspective, most non-governmental organizations tend to be focused
very much on global issues—the global environment, global AIDS issues. The developing-
country groups tend to be much more focused on local poverty problems, and they're much
more focused on delivery of services and improving the conditions and lives of people in their
communities. So you have a very broad spectrum of agendas, and in some ways, it makes me
think really this is why we have democracies and institutions; that this current process is just
too messy. Filtering out who should be heard and how much weight they should be given in
the political process, it's very problematic, and actually, democratic institutions, when they
work, are a pretty good filter for weighing these competing interests and claims.

Corporate Responsibility and Smarter Government

INTERVIEWER: You talk about the rules of the game for corporations. You talk to CEOs who
say, "We have a responsibility to our shareholders, but also to the broader community." Talk
about that idea of corporate responsibility, conscience.

NEMAT SHAFIK: I think it's got two dimensions, a negative dimension and a positive
dimension. The negative dimension is why a lot of companies got into it: Something went
terribly wrong, [for example, the chemical plant disaster] in Bhopal, in India, and suddenly the
chemicals industry realized they had to do something, and they got together and set up some
common [guidelines] about environmental standards.... And similarly, many companies, when
something has gone wrong, their share prices have collapsed. There have been a couple of cases recently where we've had huge losses in stock value as a result of some horrible environmental mistake or reputational mistake of a company. So that's the negative side, and so companies have to care because they want to protect themselves from this downside risk.

But I think what's really interesting is the possibly more positive side. I mean, some companies have made this part of their brand, of being clean and wholesome, a kind of green branding. But also there's something about a management that's open and responsible in that way which spills over into higher profits. There's been some very interesting data recently, something called the Dow Jones sustainability index, where they look at firms which are considered environmentally and socially progressive, and they're actually outperforming the market in terms of profitability. So it's not just do-gooders and something that the PR department has to work on, but it's actually improving their bottom line.

I've seen some examples in my own work where you can make that happen. We were involved in the privatization of the water services in Buenos Aires, and there were some poor slum communities which were very expensive to serve. They generated about 5 percent of the company's revenues, but they were costing the company about 30 percent of their investment costs. [It was] a very unprofitable group to serve. The big worry was, of course, that when the company was privatized, they would no longer be interested in serving these poor communities and would just focus on the rich neighborhoods in Buenos Aires—quite sensibly, as that's the profit-oriented thing to do. But we hooked them up with local non-governmental groups working in those slum communities, and we found ways that, with the community contributing some of the labor costs for laying some of the pipes, with local government providing some extra financing, they actually made it profitable for the company to serve these groups. In 1999 alone, they were able to add 100,000 people to the water system, to give them access to clean water for the first time by [having] the company work in partnership with the local community....

The company had to make money, but at the same time, the community could do things in exchange that would make it attractive for the company to serve them. And so I think these new types of partnerships where we can reconcile profit-making with poverty reduction, [economic] development, job creation, and growth are actually the most interesting side of
the corporate social responsibility [issue]; finding those positive energies which make it in everybody's interest to be socially responsible and showing how it can contribute to the bottom line, making that business case. I think if we get more and more examples like that, it will be a way to give an incredibly human face to globalization.

INTERVIEWER: One of the CEOs who talked with us about his corporate responsibility runs a big pension fund, [with] a lot of money overseas, and he said: "Look, the hard fact is that we have to see development in the developing world; they have to be a part of the global economy. However, they are essentially uninvestable for me. We will never put money into these countries, period. I can't do it because of my shareholders." How do you deal with that?

NEMAT SHAFIK: One of the things we've been doing is taking some of these [very large] investors to talk with officials in developing countries. We have one group that we organized; I think [between them], they manage $10 trillion or something [close to that]. And it's very powerful when you take a group like that to a minister of finance or a prime minister and have them say: "We can't invest in this country until we're sure that the exchange rate is truly convertible, and that the budget is sound, and that the political system and the macroeconomy is stable, and that if we make an investment we're able to actually withdraw the profits from those investments." And I think ultimately that's the only way it will improve. We have to make these countries more hospitable to investment for them ever to be able to attract it.

Getting Privatization Right

INTERVIEWER: We started off by talking about privatization, about getting [the economics right but the social balances and] the politics [wrong]. ... Can global capitalism deliver what had been the promise of socialism? Clearly [socialism] didn't work. How do we try to get it right this time?

NEMAT SHAFIK: I think ultimately it's going to have to mean smarter government. ... It's much easier to run an inefficient, [centrally controlled] enterprise than it is to figure out how to encourage thousands of enterprises run by others [to] actually deliver social good. It's a much harder job. I don't think that the corporate social responsibility phenomenon will solve the problem.... It will help, and it will set benchmarks and standards, but in the end, even
when you talk to the big corporations, they say: "We can't substitute for governments. In the end there has to be a welfare system; there have to be labor laws. We can't do it." And I hear them grumbling all the time: "You guys can't offload government responsibilities onto us."

So in the end, [there are these tasks, which are] the role of governments, and what I see in the governments in most countries I'm working [with] now struggling with, is defining how to do that. I think what's changed, though, is that governments have realized that the way to achieve the benefits of globalization is not necessarily by intervening in the production system anymore. It's not about running the factory yourself or trying to regulate how [it gets run], but it's in creating a separate set of structures which really are the foundations of the welfare state, figuring out how to have a decent social security and unemployment system, and, more importantly in some ways, investing in the future through education and health so that future generations will be able to take advantage of the opportunities that globalization brings. So it's really shifting the locus of government intervention away from the economy part and towards many of the more social aspects of life. Having said that, there still is a huge role for government regulation in things like labor standards, in terms of making sure that the market part of the economy really works like a market, encouraging free entry, encouraging competition, making sure that, yes, we're going to let the private sector have a bigger role, but they're going to have to do their job in a very efficient way and not be able to take advantage of privileges and monopolies to make the same mistakes the government's made in the past.