Robert Rubin served as U.S. secretary of the Treasury from 1995 to 1999 during the Clinton administration. Before that, he was assistant to the president for economic policy, from 1993 to 1995.

With a background in both business and government, Rubin discusses the management of the global economy, and strategies for coping with crisis and instability in a changing world.

Leaving Wall Street for Washington

INTERVIEWER: Why did you decide to leave a very successful business career and go into government service?

ROBERT RUBIN: I'd wanted to be in government for as long as I could remember, and there were multiple reasons. I was exceedingly curious as to what the world looked like from inside the White House, if one could have an appropriate job. And secondly, there were a lot of issues that I cared a lot about and was very interested in, and it seemed to me that there was no better way to pursue those than to be part of government—once again, assuming that you had a job that kept you at the center of things, so that you actually had an effect.

INTERVIEWER: And what were the issues that particularly motivated you?

ROBERT RUBIN: I had long had a feeling that, in addition to all of the programs and measures and purposes that government needed to serve—and I do believe that the government should have a very robust role in our society—there was also the need to balance that with discipline. And it used to irk me enormously to listen to politicians talk about everything they wanted to do and never talk about how they were going to pay for it. I thought that what you needed to do was to provide the "pay-for" balance, if you will, to the programs that you wanted to pursue and then exercise discipline in deciding what you wanted to pursue.

Secondly, it seemed to me that we could benefit enormously from globalization and from global integration and that there was relatively little understanding about that, and I wanted to have the opportunity to try to pursue that agenda, and also in some fashion or other, to improve the explanation of [global integration] to the American people.

INTERVIEWER: Can you tell us how you go about making decisions both in Wall Street and in government?

ROBERT RUBIN: In my view nothing is certain; nothing is absolute. And that is the view, I might add, of modern science. So it seems to me with respect to any decision that you're going to make, what you have to try to figure out is what are the odds, what is the likelihood of something happening, and if it does happen, what benefit do you get? And if it doesn't happen, what do you lose? Then you make your decision by looking at the likelihood of different possibilities, and the gains if they happen, and the losses if they don't happen. You try to get the best possible likelihood-adjusted result, of the best average result, if you want to put it that way. And then you might adjust that, because you might say, "Well, that's the best average result, but in fact I'm more risk-averse, so I'm not going to take that much risk." Or you might say, "That's the best average result, but I'm willing to take more risk, so I'll shoot for the moon.

INTERVIEWER: Do you do it on paper? I've heard you use a phrase of a mental legal pad.

ROBERT RUBIN: When I used to run an arbitrage department on Wall Street I actually did try to do that on a yellow pad. When I was the secretary of the Treasury or in many other situations I've faced in life, you can't walk around with a yellow pad. (laughs) But it's my mindset; it's simply the way I think about things, and I try to be as disciplined as I can. Now, obviously, once you reach your own conclusions, you then face the fact that you have to implement them in the world, and so in the context of all of the [external] circumstances, you might wind up doing something quite different than the result you considered optimum, because it's the best that you can accomplish.

Clinton and Deficit Reduction: "The Day Keynes Died"?

INTERVIEWER: Now, fairly early in President Clinton's administration, he had come to a real turning point, and a key decision was made. You argued, I believe, for deficit reduction. Why was that so crucial in your view?

ROBERT RUBIN: President Clinton actually made the decision before he stepped into the Oval Office, during the transition, on what was a dramatic change in economic policy. At a time when the country was in an economic morass, at a time when there was excess capacity, instead of opting for the traditional deficit expansion and the consequent expansionary impact of the economy that would come with that, he opted for deficit reduction. And the theory of it was that we already had very high deficits. Our debt had quadrupled, give or take [a few percentage points] over the last 12 years, and if we continued to expand the deficit we would undermine confidence and increase interest rates. But if we could bring the deficit down, we had a chance at least of getting substantially lower interest rates and of conveying a sense that our economy was being managed in a more serious fashion, and that would increase confidence. And if we could increase confidence because of lower interest rates, then we would increase investment. That was the theory of the really dramatic change in economic policy that President Clinton made.

INTERVIEWER: To give a sense of the scale of the debt that you said had quadrupled, how big was it?

ROBERT RUBIN: My recollection is that the publicly held debt of the federal government at that time was something like $3.5 trillion, far and away the largest in all U.S. history, and it was a relatively large percentage at that point of the nations gross domestic product, although it might not have been as large a percentage as it was in peak periods during wartime.

INTERVIEWER: What were some of your colleagues urging? Was it a little more traditional?

ROBERT RUBIN: I don't think within the incoming administration there was any real debate about whether our policy should be deficit reduction. I think there was a pretty much uniform feeling about that. There were debates about the magnitude of deficit reduction, and then, within the context of deficit reduction and a disciplined budget, there was the question of what our priorities should be. There was a good deal of debate whether there should be more emphasis on education or more emphasis on infrastructure or technology or what have you.

INTERVIEWER: Can you explain again what signal deficit reduction sends to the market?

ROBERT RUBIN: Well, the key is what we said to President-elect Clinton during the six-and-a-half-hour meeting we had prior to him entering the Oval Office: If we put together a program on deficit reduction, it would only have an effect on interest rates—that's to say, on the bond market, if the bond market believed it. So the key was credibility. What we said to him was that we needed to make sure that our numbers were real, that nobody could attack our numbers, and it was important that there be enough politically difficult measures, broadly recognized politically difficult measures, in the program, so that people would look at this and say: "You know something? These people are serious."

INTERVIEWER: You're famous for the level to which you've taken risk assessment. Could it have gone the other way? Was this a sure bet?

ROBERT RUBIN: No, it was not a sure bet. I don't think anything in life is a sure bet, and this certainly was not a sure bet. We said to the president that we thought it would work, but there were no guarantees. But the alternative, which was to have even larger deficits, we thought had even less chance of working. So we thought it would clearly be the best path, but there was no guarantee.

INTERVIEWER: If the deficits went on growing, what would the impact have been on the lives of ordinary people?

ROBERT RUBIN: Our view was that if the deficit had continued growing, the probability was that any kind of sustained recovery would have been cut off, because people would have been afraid and markets would have been afraid that sooner or later we were going to try to inflate our way out of the deficit, and as a consequence, whenever the economy became stronger, interest rates would go up very substantially, not only because of the strong economy but because of a deficit premium.

INTERVIEWER: A lot of people say that you deserve the credit for the decision. Is it fair to say that this is the foundation of the boom that America enjoyed for nine years?

ROBERT RUBIN: I think the boom that we enjoyed for eight years or so is a function of many factors. Private-sector restructuring in the 1980s, much criticized at the time, laid the groundwork for future productivity, I think. The new technologies, globalization, [all contributed,] but there's no question in my mind that the deficit-reduction program of President Clinton's administration was both key and indispensable, and that without it, the probability of the recovery would have been far, far lower.

INTERVIEWER: Did it also lay the foundation for long-term prosperity as well?

ROBERT RUBIN: The deficit reduction not only contributed to spurring recovery, but it provided a sound basis for positioning the country for the long run.

INTERVIEWER: You refer to it as a very radical step, radical for a Democratic president or for any president. What had been the trend up till then?

ROBERT RUBIN: Conventional thinking was that if you had an economy that was soft, and you had excess capacity, then what you did was run larger deficits. And the deficits would [stimulate] demand, and the increased demand would then spur recovery at a higher rate of growth. The problem that we had, when President Clinton was elected, was that the country already had very large deficits and had quadrupled the debt, roughly speaking, from 1980 to 1992. So our fear was that if we expanded the deficit at that point, the beneficial effect of the deficit expansion would be more than offset by higher interest rates and lower confidence. And so we felt you had to go in the opposite direction.

INTERVIEWER: One person described it as "the day that Keynes died." Would that be fair?

ROBERT RUBIN: Well, I think that you have to make your judgments about your economic policy based on the circumstances that your dealing with. We were dealing with the circumstances of a country that already had very large deficits and had vastly increased its debt.

INTERVIEWER: I suppose one of the great surprises during the Clinton years is how quickly the national deficit turned into a massive surplus. How did that happen?

ROBERT RUBIN: I think what actually happened was a "virtuous cycle," because once the recovery started, then you had more rapid growth, and the more rapid growth reduced the deficit, and while all of this was going on, investment was spurred by lower interest rates, and the greater confidence that came with deficit reduction increased productivity. As a result, we could have even more rapid growth without increasing inflation, and all of that created the remarkable economic conditions that [produced the surplus].

Consequences of Free Trade

INTERVIEWER: Under this administration, the U.S. showed a remarkable commitment to building up world trade, and you seemed to be a particular standard-bearer. What was the logic behind that?

ROBERT RUBIN: From the very beginning, actually during the 1992 campaign, President Clinton committed himself to world-trade liberalization abroad and to keeping our own markets open—in fact, opening them further. I think that contributed very substantially to the economic conditions of the subsequent eight years, because what it did was it meant that we could obtain goods and services less expensively abroad if we did. So it helped keep inflation down, and maybe even more importantly, it created competitive pressure from abroad in our economy, which in turn, I think, had a lot to do with the high level of investment and increases in productivity that we had in our economy.

If you look at that period of seven and a half or eight years, the United States, with its relatively open markets, had a very high rate of growth and a very high rate of private-sector job creation. Continental Europe, with far less open markets, had consistent unemployment of 10 percent or more and far lower rates of growth. Japan, with far less open markets, had virtually no growth.

INTERVIEWER: So what's the moral?

ROBERT RUBIN: I don't think that's necessarily proof positive, but it does seem to suggest to me that open markets have many beneficial impacts.

INTERVIEWER: And Americans are the most open of all?

ROBERT RUBIN: The United States has, I think by some fair measure, the most open markets among the major economies.

INTERVIEWER: There's a lot of rhetoric about [economic] strength and democracy bringing freedom to other countries and so on. Is that an inevitable consequence of free trade?

ROBERT RUBIN: I think that integration with the global economy, freer trade or freer capital movements, does expose a politically closed society, and the people of a politically closed society, to outside influences. It seems to me that over time that should help lead it to a freer society politically, but there's no clear evidence at this point as to whether that's so, and, if so, at what rate it would happen. On the other hand, it is interesting to go to some still-authoritarian societies and see how much information is now circulating among people who are in the sectors that are integrated with the global economy.

INTERVIEWER: Speaking of authoritarian states, why was trading with China so important to the Clinton administration?

ROBERT RUBIN: Oh, I think the trade agreement with China was of immense importance in a variety of ways. Most importantly, I think, and certain Chinese officials have said this, it locks in economic reform in China, because once the trade agreement takes hold, then China is really bound to this regime that, in effect, will reinforce economic reform and make it very difficult to move back from it. And I believe that economic reform will continue to expose the Chinese people to more and more international influence and the influence of outside ideas. Over time, that should have an effect on the political system as well.

Managing Globalization in an "Age of Anxiety"

INTERVIEWER: It's often said that you believe that the promotion of free trade is good for the rest of the world, but it's also in America's own interest.

ROBERT RUBIN: (laughs) I think that there's no question that trade liberalization abroad, which helps us export more, and our own open markets, which enable us to import that which we can get more inexpensively abroad, are enormously in our interests. What it basically means—and this is the age-old theory of trade liberalization—is that we'll wind up producing the things that we produce at a comparative advantage, and the rest of the world will do the same, and that will make the whole global economy more efficient. Now, having said that, and as a great believer in trade liberalization, I don't even think there's much question about that. However, there are also all sorts of other issues that trade liberalization raises that need to be dealt with on what I call a parallel track.

INTERVIEWER: For example?

ROBERT RUBIN: Just [as new] technology [does], the very trade liberalization that brings so much good to the overall economy will inevitably create some dislocations, and it seems to me that the society must deal with those dislocations. We should deal with those dislocations by providing people with the tools to relocate effectively in the mainstream economy, and with help in doing so.

INTERVIEWER: That [dislocation] was the big fear at the time of the NAFTA treaty, wasn't it?

ROBERT RUBIN: Yes. Well, the NAFTA treaty was subject to a lot of arguments, many of which I think, on both sides, were probably not intellectually valid. But certainly one of the great concerns was dislocation. I think another factor in the NAFTA debate, and President Clinton made this point in one of his speeches, is that trade represents change, and change, even if it's constructive, creates anxiety and insecurity. I think that was a very, very important point. Even those who are doing well in the economy and are benefiting from trade nevertheless feel more insecure, and what you really need to do is to give people the confidence that they can do well in an environment of rapid change. I think that's one of the great challenges of our economy and society and the global economy.

INTERVIEWER: Is that why this is an age of anxiety?

ROBERT RUBIN: It's an age in which a lot is happening very quickly, and the forces of globalization create not only economic dislocations, but cultural dislocations and a great sense of insecurity and unease. And I think that at the same time that we get the economic benefits of globalization, on a parallel track we need to find ways to deal with these other effects.

INTERVIEWER: Has global economic integration increased global economic instability?

ROBERT RUBIN: With respect to trade and capital markets, in my view at least, global integration has been substantially beneficial to the global economy and to most of the participants in the global economy, although it has certainly had dislocating effects on some. It also creates a set of other issues, one of which is a heightened susceptibility to financial crisis, at least in my view. It seems to me, the answer to that heightened risk is to put in place measures that will minimize that susceptibility, and secondly, to put in place the best possible crisis-response mechanisms.

... In today's global financial system, you have vast flows of capital; you have instantaneous communication; you have instantaneous execution of decisions; and you have capital flowing to geographic parts of the Earth that capital never used to flow to, and those regions are riskier. You also have derivatives, a whole new set of financial investment instruments that are complex and little understood, but much used. Put all that together, and I think that you've increased the risk of crisis in the global system. The very global system that creates so much benefit, it seems to me, also has an increased risk of crisis.

INTERVIEWER: What's the appropriate response to that risk?

ROBERT RUBIN: I think the responses to that risk are not simple, although I think the objective is simple. The objective is to take public action to minimize the probability of crisis and to develop better crisis-response mechanisms. The problem is that while some things are pretty obvious and relatively easy to arrive at, many of the most important issues are actually very complex. It [can be] a little difficult to figure out how to accomplish what needs to be accomplished.

The Asian Crisis and Contagion

INTERVIEWER: The Asian financial crisis that began in 1997 gave us all a big fright. What caused that crisis?

ROBERT RUBIN: I think economists will argue for a long time about what caused the Asian financial crisis. My own view is that there were macroeconomic imbalances and structural problems in the emerging-market countries that were receiving large inflows of international capital. That was part of the problem. But equally, the other part of the problem was that financial institutions and investors in the industrial countries, after a period of doing very well, underweighed the risk and overreacted to the positive [growth they saw in the emerging-market countries.] As a consequence, what you had was a loss of discipline and very large excess capital flows. I think those excesses were equally or more responsible for the Asian financial crisis.

INTERVIEWER: Hadn't the industrialized nations' investors and financial institutions done their homework?

ROBERT RUBIN: Well, I think what happens is this, and I think it's been true all through history, and it's certainly been true through my entire experience in trading markets—and I've spent my whole adult life in trading markets—I think that when you have good times, there is an inherent tendency in markets, grounded in human nature and the pull of fear and greed, to go to excess. And I think that's an inherent tendency that policy makers have to take into account in designing public policy.

INTERVIEWER: When did you begin to worry about contagion during the Asian crisis?

ROBERT RUBIN: We began to worry very greatly about contagion in the Mexican crisis in [1994-95]. Our concern was that if Mexico was going to default [on its debt], that default could rapidly spread to other emerging-market countries. So when we faced the [1997] Asian crisis, starting with Thailand, we were concerned not only about Thailand but also about the effects it might have elsewhere. For us, the concern about contagion was integrally part of our concern about the individual countries in the Asian financial crisis.

INTERVIEWER: Talk about the economic stabilization in Korea in late 1997.

ROBERT RUBIN: I think that the world may have been very close, far closer than almost anybody realised, to a very severe crisis in the last week of December of 1997 when Korea had approximately $4 billion of reserves and was using [those] reserves at the rate of about $1 billion a day [to protect the value of its currency]. Had there not been an international effort at that point, I think there was a very real chance you could have had a default in Korea, the 11th largest economy in the world. And that, I think, could have had far broader and more dangerous effects around the world. There's no way of telling how bad such a thing could be, but I think that if an economy of that size defaults, it has the potential to create a crisis that could, at least conceivably, involve all the countries of the global economy.

INTERVIEWER: You have said the world came close to going over the brink at the end of 1997. What happened in that week to rescue that situation?

ROBERT RUBIN: In the last week of 1997 an enormous effort was begun, [originating in] the United States, to supplement the International Monetary Fund program with a voluntary arrangement among the banks of the world to extend the maturities on their inter-bank lending. It was that action by the banks that enabled Korea to get through that very difficult period.

INTERVIEWER: You make it sound like it was easy. Did the banks just all agree to go along, or did they take a certain degree of persuading?

ROBERT RUBIN: Oh, the process itself had its moments. In the first place, each bank had to be spoken to by an appropriate official. I did a fair bit of that myself. Secondly, some banks were quite responsive, and other banks were less responsive. People had to be persuaded that their enlightened self-interest lay in becoming part of this program. (laughs)

INTERVIEWER: Was that the bleakest moment of the financial crisis, or do you think it came in the autumn of 1998?

ROBERT RUBIN: Most people think the bleakest moment was autumn 1998 because people felt that the international markets were on the verge of gridlock [then]. I think they were both very dangerous moments. Clearly in August of '98 we were very close. Had Brazil, for example, had additional trouble when everything else was at its height, that could have created an engulfing world crisis. But I think the last week of December '97 was also very, very, very risky. (laughs) Brazil went through a number of stages, and when the problem in Brazil was occurring at the same time as Russia's bond default, and the collapse of the U.S. hedge fund, Long Term Capital Management, [which produced] gridlock in the markets, it was not optimal for Brazil to fail at the moment, [so] the international community did whatever it could to try to get past that point.

The Russian Collapse

INTERVIEWER: What was your reaction to the collapse in Russia?

ROBERT RUBIN: Oh, I thought that Russia was in a deeply troubled economic situation. I think it was overwhelmingly in the interest of the West to try to help Russia for all sorts of reasons, but I think everybody did it with their eyes open and knew that there were enormous problems there, so I don't think that there was great surprise, when the problems became more severe. I think that the impetus for working with Russia was driven more by a concern for bringing Russia into the global mainstream, if you will, and by geopolitical and national security considerations than it was by the size of the Russian economy.

INTERVIEWER: Did you feel that people in the West rushed into the Russian market [after the collapse of communism] with a gold-rush mentality?

ROBERT RUBIN: Well, when the opportunity first became available for people to invest in Russia, there was, as you may remember, an enormous rush in. I remember thinking to myself at the time that people perhaps should be taking a somewhat more cautious view of all of the issues—the challenges and risks as well as the opportunities. [But] there was a general view that this was a tremendous new opportunity, and I think [there was] a very substantial tendency to enormously under-focus on the risks.

INTERVIEWER: What was the administration's view of Russia at about the time that you took office in 1993? Were you pessimistic or optimistic?

ROBERT RUBIN: I think in 1993 there was a feeling, and I think rightly, that it was very important to try to help Russia. For all sorts of reasons—geopolitical reasons, national security reasons—helping Russia become part of the global economy and part of the global community was an enormously important objective. The Clinton administration devoted a great deal of energy to try to do that.

INTERVIEWER: Nevertheless, for the ordinary Russian people, it was a pretty rough ride, and in 1996, at least for a while, it looked like the Communists could win again, or do very well in the elections. Did this set the alarm bells ringing?

ROBERT RUBIN: I think by the time that you got to 1996 and 1997 and 1998 there was a general feeling that an awful lot that needed to occur in Russia for Russia to be successful economically simply wasn't happening. So the administration [took] a view that I agree with. On the one hand, it was enormously important to help Russia, and on the other hand, Russia was not doing for itself what needed to be done.

INTERVIEWER: What could you do about that?

ROBERT RUBIN: In the face of that, you have to make a calculated judgment. When all available decisions are bad, which is the least bad decision? I thought the least bad decision was to continue to try to help Russia.

INTERVIEWER: There was an enormous amount of aid being poured into Russia, and some people there were against capitalism. What took place was a huge concentration of wealth in very few hands. Are you happy with the way the situation developed there?

ROBERT RUBIN: I don't think anybody is happy with the economic developments in Russia and the course of economic events in Russia. On the other hand, I think that the most sensible set of policies for the West is to continue to work with Russia, to recognize that it may take a very long period of time, but to continue to try to promote reform and sound policy in the hopes, but certainly with no guarantee of success, that over time the situation will gradually become better.

INTERVIEWER: Where should those reforms be concentrated?

ROBERT RUBIN: I think that Russia needs to have an effective legal system. It needs to have not only a framework of laws, but also an effective jury system of courts, judges, and dispute resolution. I think that corruption is obviously a very serious issue that needs to be dealt with. There's a whole host of educational system needs to be dealt with. The banking system needs to be put on a sound footing, just a whole host of issues that need to be dealt with if Russia is going to have a successful economy in the long run. I think that what you need is an effective government that can effectively pursue issues like the legal system, a court system, a capital market system, banks, and an education system.

Equipping the "Citizens of the Globe" for the Modern Economy

INTERVIEWER: You talked about the benefits of globalization. Why is there such an apparently strong backlash against globalization?

ROBERT RUBIN: I think there is a strong backlash against globalization, [and] I think that it's a function of many forces. For one thing, even in our country, which is very successful economically, there are people dislocated by trade, and they tend to be very well organized and very vocal. The great preponderance of Americans who benefit from [global] trade, either as consumers or as producers, in many cases don't even know that they're benefiting from trade, so there's very little organized effort on behalf of trade liberalization. Secondly, trade, like technology, represents change, and change creates anxiety and insecurity, and I think that inevitably creates a backlash or concern.

INTERVIEWER: Do you think globalization is likely to be reversed? For example, could the anti-globalization protestors, the anti-corporate movement, actually stop global progress in its tracks?

ROBERT RUBIN: I think it's very hard to know how this is all going to come out. I think there's very little public understanding of the dynamics of our economy, very little public understanding about what effect trade really has. I think there's a tremendous tendency to conflate different issues. I think people who attack globalization very often aren't really focusing on globalization at all. They're really talking about other kinds of phenomena they don't like: market-based economics, big companies, the American hegemony, or whatever it may be. I think there's a lack of rigor [in this sort of thinking] which is not surprising, but it makes it a little bit difficult to deal with it. I think that what we need are parallel programs to deal with dislocations; to deal with issues such as income distribution that I think are very real around the world; to equip people to deal with an environment of rapid change. And at the same time, I think we need vastly greater public education [about global economics], so that people understand the tradeoffs and the benefits as well as the costs of globalization.

INTERVIEWER: Is the increased disparity of wealth within individual societies and between individual countries one of the downsides of globalization?

ROBERT RUBIN: Well, I don't think that there's any question that, taken together, the combination of globalization, the new technologies [that have emerged], and the spread of market-based economies have increased the rate of growth of global income. The question of sharing the benefits of that growth is a separate question, and I think that one objective that public policy needs to have is to try to achieve a greater sharing of the benefits of these forces of change. It needs to do that for all sorts of reasons, at least one of which is to generate [broader] support for global integration.

INTERVIEWER: You don't feel that's happening yet?

ROBERT RUBIN: I think that there has been focus on doing that in our country. In the United States, there certainly have been programs that are designed to do that, but I think that there is vastly more that we need to do. It isn't a question of saying that people shouldn't be able to do as well as they can do; it's a question of equipping all the citizens of the globe, ideally, so they can participate effectively in a modern economy. That's obviously an extremely tall order, but that seems to me what we should be aiming at.

INTERVIEWER: And the engine that is going to drive this [process of more equitable distribution] is free trade?

ROBERT RUBIN: No, free trade, free flow of capital, market-based economics, the new technologies—all these have increased productivity and, at least in my judgment, have increased the rate of growth of global income. The problem is, it does not automatically follow that the [entire] globe will participate. For all kinds of reasons, many don't participate in this growth, and so what you need is a parallel set of policies that says, "Now that we're maximizing the rate of growth that we can get in our global economy, how do we see to it that the poor get the benefit of this, as well as middle-income people and upper-income people?" It seems to me that both within countries and on a global basis this is an issue that is far, far, far from fully addressed.

INTERVIEWER: But is this something that markets can do by themselves?

ROBERT RUBIN: I don't think that markets by themselves will address the issue of sharing the benefits of growth. I do think it's fair to say, as President Clinton has very often said, that a strong economy is the best social program. I do believe that's true, because a strong economy creates jobs, and it does tend to lift incomes. In the United States today incomes are rising at all levels, but, having said that, there are still very large numbers of people who are not participating very fully, and in some cases not at all, in the growth that's taking place. That, it seems to me, requires a parallel set of programs focusing on education, health care, training, job placement, and a whole host of other matters. Countries like the United States finance [such] programs within their own borders, though in my judgment, we don't do as much as we should. With respect to the poor countries of the world, which don't have the resources, it seems to me that the more affluent countries have a self-interest there, and have it in their own self-interest to help those countries, through the World Bank, through the IMF, through the regional development banks, and through bilateral aid, to put in place effective programs, so that those people, too, can become part of the mainstream economy.

INTERVIEWER: You have called for an improvement of labor standards, haven't you? Do you mean [we should raise] standards in Third World countries as well as our own?

ROBERT RUBIN: I think the global economy would benefit from having an improvement in the ability of labor to negotiate with employers [to achieve] a better balance. The consequence of that [increased power to negotiate] would be a broader sharing of the benefits of the growth [produced by] these great forces of change at work in our global economy.

INTERVIEWER: That greater power for labor to negotiate with employers is one of the key things that the anti-World Trade demonstrators call for.

ROBERT RUBIN: The anti-World Trade Organization demonstrators call for it, but what they want to do is to throw out the whole mechanism that creates the greater well-being, and I think that is exactly the wrong thing to do. (laughs) I think the right thing to do is to continue to try to maximize global well-being and then work toward more broadly sharing it.

Striking a Balance Between Government and Market in National Economies

INTERVIEWER: How do you see the changes in the role government has in the economy?

ROBERT RUBIN: It seems to me one of the issues that every society has to face is what is the proper role is for markets in a market-based economy, and what the proper role for government is. There are a whole host of economically important functions—I would say critical functions—that markets, by their nature, will not perform. [These are] what I would call framework kinds of questions: regulations, the legal systems, matters of that sort. Then [there are] what I would call underpinning kinds of questions: education, health care—the kinds of activities that equip a people to be productive but which a market-based system is not going to produce optimally. So there's a critical role for markets and a critical role for government, and each need to play its own respective role, in my view.

INTERVIEWER: Over the last 15 years in the United States and in many other countries, there does seem to have occurred a change in what we expect government to do.

ROBERT RUBIN: Well, if you go back 10 or 15 or 20 years, there was a philosophy in some part of the world that the government should direct the economic affairs of the nation. That philosophy, it seems to me, has pretty much been discredited, and I think rightly so. Then there are some people who say let's leave virtually everything to markets. In my view that is more or less equally wrong, but the right answer, or the right balance, [I believe] is for markets to produce what we ordinarily think of as the economic functions, and for government to provide the framework of laws and regulations and also the underpinnings that the market simply won't produce, but which are critical: education, health care, and the like.

INTERVIEWER: Why do you think there is a greater confidence in markets?

ROBERT RUBIN: Well, I think that there is a greater confidence in markets on the part of many because markets have been pretty successful in producing economic well-being. On the other hand, I think there is also a lot of concern about markets. A lot of people feel insecure. Some people have been dislocated; other people feel that, in the name of free trade, their cultures are being dislocated. So I think attitudes about markets are quite conflicted at the present time.

INTERVIEWER: So the pendulum can also swing back?

ROBERT RUBIN: I think that there is a very real risk that you could have an effective backlash which could result in trade liberalization not moving forward and capital-market liberalization not moving forward, and perhaps even moving backward. It seems to me that would be very unfortunate in terms of the well-being of the global population, but I do think, on a parallel path, that there are a whole host of issues and challenges and risks created by trade liberalization and globalization that need to be addressed.

Trade Liberalization: Looking Back, Looking Ahead

INTERVIEWER: When you look back on your years in Washington, are there one or two things that stand out to you as most surprising, that turned out differently than you expected?

ROBERT RUBIN: I don't know if I would say that anything was most surprising. I guess two things strike me. I think the basic concept in 1993, which was to spur an economy through fiscal responsibility complemented by open markets and investing in our people, was right. But I think the magnitude of the effect was something nobody could have anticipated, and certainly one of the most unexpected aspects of it was the combination of increased investment plus the new technologies. I would say the increased investment was in some fair measure probably spurred by the low interest rates and the greater confidence produced by our deficit reduction. The combination of the increased investment and the new technologies created a substantially greater impact on productivity growth than anybody anticipated.

I guess the second thing that has struck me—and the president has commented to this effect, too—is that our international economic policy, our open markets, our trade liberalization has contributed enormously to the economic good times we've had, and yet it is extraordinarily difficult to effectively convey that to the American people, to create a broad-based understanding of these dynamics. The result is that it's very difficult to get public support for forward-looking international economic policy.

INTERVIEWER: When you came in in 1993, it was very clear what the objective was: reducing the deficit. Is there a similarly great question that's on the agenda today as far as putting our financial affairs in order?

ROBERT RUBIN: I think there are two great questions today, at least from the American perspective. One, at least in my view, is to continue with fiscal responsibility, and that is always going to be a hard path to take, and to stay on it, because there are all these people who want to cut taxes or spend more money. The other question will be to stay on the path of trade and capital-market liberalization and to deal with all of the other issues that those forces give rise to and that need to be dealt with in parallel, both in the United States and around the globe. I think if you look globally at the policy and political issues around globalization and all of the issues that globalization gives rise to, and market-based economics and all the issues that market-based economics give rise to, [globalization] will be central to the politics and the policy debates around the globe for a long time to come.

Is Anything Really New About the "New Economy"?

INTERVIEWER: Your take on the new economy is different from the general take. What is your take on the new economy?

ROBERT RUBIN: Well, people speak about a new economy; I'm not even sure what that means exactly. There have been over the last 100 years a lot of developments that have had enormous impact on productivity: the use of electricity, the invention of the automobile, the invention of the railroad, the development of mass production. And now we have once again a new set of developments, in this case technologies, which, when combined with globalization and the spread of market-based economics, are a powerful set of forces for change in the global economy. But I think many of the fundamentals remain the same. Human nature remains the same; susceptibility to crisis remains the same; the tendency of markets to go to excess remains the same. I don't think anybody has abolished the business cycle. I think there will be ups and downs. I think [Austrian economist Joseph] Schumpeter said that virtually every major development that has increased productivity has also led to excesses in financial markets, and I suspect that's probably true here as well. So in one sense a great deal changes and is very important, and increases productivity, and in another more fundamental sense, things stay the same.