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One Year After Seattle: Globalization Revisited

By Mark Weisbrot[1]

"Sometimes I feel like joining the kids outside. When they say the system's unfair, they're not always wrong."

-- Mike Moore, Director-General of the World Trade Organization[2]

A year has passed since the World Trade Organization's "Millennium Round" collapsed under clouds of tear gas in Seattle. It is now clear that this event marked a turning point in the ongoing battle over globalization. Addressing the WTO delegates in Seattle, President Clinton noted that the protesters "represent millions of people who are now asking questions about whether this enterprise in fact will take us all where we want to go. And we ought to welcome their questions and be prepared to give an answer. . . their voices now count in this debate."[3]

Over the past year, the press has also begun to acknowledge the legitimacy of many of the criticisms expressed by the Seattle coalition of environmental, labor, religious, and citizens' groups. In a Special Report on globalization this month, *Business Week* summed it up: "The plain truth is that market liberalization by itself does not lift all boats, and in some cases, it has caused severe damage. What's more, there's no point in denying that multinationals have contributed to labor, environmental, and human rights abuses."[4]

By last May, the *New York Times* had noted that the opposition had "made globalization a naughty word," and leading advocates such as International Monetary Fund (IMF) Deputy Director Stanley Fischer were looking for "another way of describing economic integration, if the idea is ever to become popular again."[5]

Clearly the discussion has changed since the Seattle protests put the WTO on the map of mass public awareness for the first time. But exactly how has it changed-- especially with regard to the economic issues-- and what have been the consequences? What has been accomplished in the debate over the role of the WTO, the IMF and the World Bank? And perhaps most importantly, how much closer are we to substantive reforms that would, for example, protect the natural environment from the expansion of international commerce, allow the majority of people to share in the gains from economic growth, or ameliorate the worst abuses of various global economic actors?

The Collapse of the WTO's Millennium Round

The groups represented in Seattle had a wide range of grievances with the WTO and globalization, but they all agreed that they did not want the organization to proceed with a new round of negotiations. In this they succeeded-- the millennium round collapsed, and as of today there has still been no new round initiated. This is important for several reasons. First, there were strong substantive reasons to believe that a new round of negotiations would cause serious harm to the public interest.

In its four years of existence prior to Seattle, the WTO had ruled consistently against national laws and regulations that were designed to protect public health or the environment. A European Union regulation banning beef treated with growth hormones was found to be a violation of WTO rules, despite the fact that it applied equally to foreign and domestically produced beef. The WTO had substituted its own scientific judgement for that of the European Union, in the case of a regulation that the EU's scientists found to be justified as a public health measure.[6] Similarly, the WTO had ruled against the United States with regard to the protection of endangered sea turtles. United States law had required that any shrimp sold in domestic markets be caught with boats that used turtle excluder devices, but the WTO found this to be unfair to foreign producers. And in 1997 the WTO had ruled against the US Environmental Protection Agency's standards for the quality of imported gasoline (from Venezuela), again in a case involving environmental regulation that had no protectionist intent.

These and other rulings, as well as the lack of transparency and openness with regard to its proceedings, had raised serious concerns about the WTO's willingness to pursue some balance between commercial and non-commercial interests.[7] This was true not only with regard to the environment and public health, but also labor. The expansion of trade with countries that maintained low-wage, often brutally repressed labor forces was seen as a direct threat to American labor, which had already suffered stagnant or declining real wages for most employees over the last quarter-century.

As a concession to labor, the Clinton administration had proposed a "working group on labor conditions" for the millennium round. But this meant that even under the best case scenario, there could be no labor rights negotiated until the round after the millennium round. The last round lasted eight years (1986-94), and ended six years ago; and there will be some years to implement any new rules that might be negotiated. Added up, this means it would be at least twenty, and most likely thirty years before the possibility of labor rules in the WTO could become a reality. For this reason, organized labor had good reason to question the sincerity of the Administration's proposal, and to oppose another round of negotiations that would increase competition with low-paid workers who did not necessarily even have the legal right to organize unions, or other basic human rights.

In addition, the agenda of the new round appeared to be a damaging one. The liberalization of trade in forest products was widely seen as something that would accelerate deforestation worldwide. The Agreement on Government Procurement would make it more difficult for governments to take into account non-price considerations, such as the environment or human rights, in their purchases. The liberalization of trade in financial services seemed premature, at best, in the wake of the Asian financial crisis, which was clearly brought on by over-liberalized capital flows.[8] Implementation of the Agreement on Agriculture was seen as a threat to hundreds of millions of small farmers worldwide, and particularly unfair to the poorer ones, in view of the subsidized agribusiness of the US and European Union. And implementing the TRIPS (Trade Related Aspects of Intellectual Property Rights) agreement promised to increase the drain of resources from poor to rich countries, and most dangerously, make it more difficult for governments facing public health crises (such as AIDS in Africa) to provide affordable medicines to populations in need.

In view of the WTO's agenda, the collapse of the Millennium Round and its indefinite postponement must be seen as the best possible outcome from the perspective of the broad public interest. While there were multiple causes to the breakdown of negotiations, it is clear that the widespread opposition to the WTO's policies and procedures loomed large. This is important to recognize, because some of this history is now being rewritten to ascribe the impasse to purely internal disagreements.[9] But the reason that Europe and America cannot make the concessions that they would need to reach agreement on outstanding issues, for example in the area of agricultural subsidies, is because both negotiating teams face increased opposition, from their own citizenry for any harmful policy changes that they might agree to. And while there are undoubtedly negotiators for less developed countries that see labor conditions as a form of protectionism for the rich countries, it is difficult to believe-- as is often asserted-- that this was the major obstacle to a new round. As noted above, it would be decades before any such conditions would become operational. It is also extremely unlikely that these rules would have even a small fraction of the impact on developing countries that results from, for example, the enforcement of intellectual property rights-- which transfers tens of billions of dollars each year from South to North. The idea that such a vague, far-off commitment to including labor conditions in the WTO would cause this kind of a breakdown strains credulity and certainly exaggerates the influence that poor countries have within the institution.

The WTO has reached a standstill because it had gone much too far-- much farther than its predecessor, the General Agreement on Tariffs and Trade (GATT) in putting the expansion of trade above all other public concerns, and was seen as threat to national sovereignty on issues of vital importance. In a recent *Business Week*/Harris poll, people most often chose "protecting the environment" and "preventing the loss of US jobs" as a major priority for trade agreements, putting them clearly at odds with the WTO's leadership and rules. When asked to describe their views on trade, only 10 percent chose "free trader." Fifty percent chose "fair trader," a label rarely used by anyone outside the labor or protest movement, while 37 percent chose the pejorative "protectionist."[10]

The United States' membership in the WTO was ratified by Congress at the end of 1994, but only because the public was overwhelmingly unaware of it. Once the Seattle protests had put the organization in the spotlight, there was little that President Clinton could do to push forward with a new round. Even in countries with authoritarian governments such as China, it remains to be seen whether the costs of accession to the WTO-- in their case, the potential displacement of tens of millions of small farmers-- can be borne without enormous social upheaval.

Changing the Debate over Globalization

The standard view of globalization-- defined as an increase in international trade and investment flows-- is that it is an inexorable, technologically-driven process. It is also seen as a major cause of economic growth, and it is widely believed that economies that are more open to international trade and investment grow faster than those that are not.

These views are not supported by the available evidence. For example, Harvard's Dani Rodrik has shown that there is no correlation between openness and economic growth.[11]. There are of course other studies that have drawn the opposite conclusion-- that more open economies grow faster-- but these seem to depend on definitions of "openness" that are measuring other things, or are otherwise inconclusive.[12]

If openness is brought about in the wrong way, it can actually lead to slower economic growth. This appears to have been the case throughout much of the world over the last two decades. The average country had economic growth per person of 33 percent, from 1980-2000, while barriers to trade and investment were disappearing at a record rate; whereas during the less open period of 1960-1980, growth was very much faster: 83 percent.[13]

All this is not to say that trade and foreign investment are generally harmful, or that protectionism is good. There are certainly gains to be had from both international trade and investment, although these will depend on the situation and are very often grossly exaggerated.[14] The problem with the debate as it currently stands is that it rests on a number of demonstrably false premises. If even a few of the more crucial facts, such as the declining economic growth rates of the last 20 years, were better known, there would be a much more honest policy debate about the costs and benefits of globalization.

The post-Seattle debate has not allowed for some of these most important economic myths to be challenged, but it has opened up other important avenues of discussion. It is now widely recognized that the poor will not necessarily gain from the expansion of international trade, and that many poor people in low-income countries have been "left behind" even where economic growth has been healthy. In the United States, the real median wage is about the same as it was 27 years ago, despite a doubling of trade and more importantly, a 58% increase in productivity.[15] Lower-wage workers have actually suffered from falling real wages during this period.[16]

Furthermore, it is also widely acknowledged that trade between countries with different environmental standards can lead to the "downward harmonization" of these standards. This can happen simply through market competition from lower cost producers who are subject to less stringent environmental regulations. As a result of these changes in the debate, US trade officials have felt increasing pressure to deliver on their promises to include labor rights and environmental conditions in new bilateral trade agreements (such as the most recent agreement with Jordan, and an agreement currently under negotiation with Singapore).

While these changes in the debate may prove important in the long run, there has so far been little in the way of substantive change, and no indication that more meaningful changes are on the horizon. The agreement with Jordan provides for the right of workers to organize unions, a first for US bilateral trade agreements. But its impact will be very small: our annual trade with Jordan ($300 million) is less than one day's trade with Mexico. Will it serve as a precedent for further trade negotiations? This seems unlikely, since it comes on the heels of China's accession to the WTO, where fierce repression of labor and human rights was not considered to be an issue. And the Clinton administration's timid plans for the WTO-- no labor conditions for three decades-- also seems to be a clearer indication of actual policy goals where there are sizeable markets at stake.

There are other, even more important problems with the US-Jordan agreement as a model for change. It actually tightens restrictions on intellectual property rights even beyond what is included in the WTO's TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement.[17] Such measures make it more difficult for countries to pursue public health policies that might infringe upon the profits of powerful patent holders, such as large pharmaceutical companies.

These provisions indicate that the US government is continuing its aggressive attempts to expand intellectual property claims through the WTO and other channels-- such as the Clinton Administration's efforts last year to stop the South African government from compulsory licensing or parallel importing of anti-AIDS drugs. Such efforts are particularly troubling from both a practical, humanitarian perspective, and also with regard to the ongoing debate over the problem of globalization.

From a practical perspective, there are now 25 million Africans who have AIDS or are HIV-positive. In many areas, more than one in five adults have been stricken. Many, if not most, of these people could be saved if they had access to anti-AIDS drugs that are now available in the United States. At patent-protected prices, this would cost tens or even hundreds of billions of dollars, and is really outside the realm of possibility. At the cost of production, the amount required would be a very small fraction of the patent-protected price, and would be affordable with increased foreign aid. More than 4 million people have already died, and it is very possible that millions more will die needlessly, because the principle of enforcing intellectual property rights internationally is considered to be more important than saving their lives.

The problem of intellectual property rights and their treatment in trade and commercial agreements also illustrates how far away we remain from an honest debate over globalization. Patents and copyrights are government-enforced monopolies over the sale and distribution of a product. From an economic point of view, they are the exact opposite of free trade or competitive markets. In fact, the economic inefficiencies and distortions that they create are analytically indistinguishable from those created by tariffs. The main difference is that these monopolies often increase the price of the protected good by hundreds or even thousands of percent, whereas tariffs rarely add more than 20 or 30 percent to the competitive price.

Yet one form of "protectionism" is treated as though it exists only to serve the narrow interests of the few, who are profiting at the expense of society, and in doing so holding back the forces of economic progress. The other, much more expensive, costly form of "protectionism"-- the monopoly pricing created by intellectual property rights-- is not even recognized as such.[18] On the contrary, agreements to extend US laws on patents and copyrights to other countries are routinely reported in the press as "free trade" agreements.[19]

The entire debate over trade and commercial policy thus continues to be seriously misrepresented: it is not "free trade" versus "protectionism," as generally put forth. Rather, the architects of the WTO are creating rules that will increase protection for some economic actors (pharmaceutical and entertainment companies) while increasing competition for others (small farmers producing grain crops).

The organizations represented at Seattle raised this point repeatedly, and it found its way into the press for the first time during coverage of the protests. [fn] This was a major breakthrough in the public debate, but it does not appear to have had much influence on subsequent coverage of these issues.

Moving Up the Ladder: The IMF and the World Bank

One of the most promising developments over the last year has been the increasing public pressure for reform of the IMF and the World Bank, the other two major multilateral economic institutions. The protests at the IMF/WB spring meetings in April, backed by many of the same groups that gathered in Seattle-- including the 13 million member AFL-CIO-- put these institutions in the public spotlight as never before. There were further demonstrations at the September meetings in Prague, forcing the Fund and the Bank to once again defend their policies, which until a few years ago were practically unknown to the public and even to many journalists and policy-makers.

Foreign economic policy first became a subject of mass public debate in the United States during the ratification of the North American Free Trade Agreement (NAFTA) in 1993. Since then there has been a process of connecting the dots, as concerned environmental, labor, religious organizations, and other members of civil society moved upward toward the centers of decision-making on these issues. The WTO was the first institution of the "Big Three" to be targeted by this emerging coalition, because it appeared to pose a direct threat to American sovereignty in such areas as regulating environmental and public health.

But the IMF is actually the most powerful of these actors, and together with the World Bank-- with which it normally acts in concert-- probably the most powerful, unchecked institution of any kind in the world. This is because the Fund sits at the head of a creditors' cartel. Because of an informal arrangement among creditors, a country that is not approved by the IMF will not be eligible for most World Bank lending, credit from other multilateral institutions (e.g. the Inter-American Development Bank), loans and aid from developed country governments, and very often private credit as well. This gives the IMF the power to decide the most important macroeconomic policies for dozens of countries, often with disastrous results.[20] It is the primary enforcer for a whole set of policies-- sometimes referred to as "the Washington consensus"-- that have often increased macroeconomic instability, lowered growth rates, and blocked national efforts at sustainable economic development.

This power is even further concentrated in the Fund. Although it is formally a multi-lateral institution of 182 member countries, in practice it is primarily controlled by the US Treasury Department.[21] Over the last year, the increasing attention that has been paid to this enormously concentrated, and frequently abused, power has been one of the great advances for civil society since Seattle. During the April protests in Washington DC, the Leaders of the Group of 77-- an organization representing countries with 80 percent of the world's population-- expressed their support for the demonstrators. They noted that "many countries have rejected the results of various policy initiatives of the World Bank and the IMF," including crushing debt burdens, privatization of state-owned industries, and a "one-size-fits-all attitude."[22]

Nonetheless these institutions have so far remained highly resistant to reform. The Bank, which has been far more open to internal policy debates than the Fund, has clamped down on dissent at the highest levels over the last year. Joseph Stiglitz, who was the World Bank's chief economist from December of 1996, resigned at the end of last year. According to press reports, he left under pressure from the US Treasury Department.[23] Stiglitz was the chair of President Clinton's Council of Economic Advisors before moving to the Bank, and is a highly distinguished academic economist often regarded as a likely candidate for a Nobel prize. He was also very critical of most of the policies that make up the "Washington consensus."

Stiglitz spoke out against the unnecessary monetary and fiscal austerity imposed on Indonesia, South Korea, and other countries during the Asian financial crisis. He was the only prominent economist to point out the responsibility of IMF and western economists for the collapse of the Russian economy, one of the worst economic disasters in history.[24] And he questioned the wisdom of Washington's promoting liberalized capital markets, which was the major cause of the Asian financial crisis.

In June, Cornell University economist Ravi Kanbur left the Bank under similar circumstances.[25] He was the lead author of the Bank's influential 2000 World Development Report, and resigned because he came under pressure, reportedly from the U.S. Treasury Department, to alter the manuscript so that it would conform Washington's orthodoxy on globalization. The resignations of Stiglitz and Kanbur indicate that the World Bank and the IMF are still far from even allowing the necessary discussion that would precede substantive reform of their policies and practices.

The Global Economy and the Nation State

The Seattle coalition has permanently altered the political landscape, not only by highlighting the abuses of globalization, but also by shining a spotlight on its major institutions, beginning with the WTO, and proceeding to the IMF and the World Bank. Prior to this increased exposure, these were seen almost universally as regulatory institutions for the "global economy," analogous to those that we have developed for the domestic economy. For example, we have a central bank (the Federal Reserve) that regulates interest rates and the banking system, and acts as a lender of last resort in times of financial crisis. It can certainly be debated whether the Federal Reserve generally chooses the best policy for the country as a whole-- indeed there is a wealth of evidence that it has historically kept unemployment higher and wage growth lower than what is possible and sustainable.[26] Nonetheless, with the exception of extreme libertarians, economists would agree that the Fed plays an essential role in stabilizing the American economy; and in fact our business cycle downturns were more frequent and severe before it was able to do so. The Securities and Exchange Commission and other regulatory agencies also contribute to the stability and functioning of domestic markets.

The standard reasoning goes as follows: we now live in a "global economy," and we need global institutions to perform similar functions at the international level. The WTO will promulgate and enforce rules concerning international trade, and the IMF is seen as the closest thing that the world economy has to a central bank. The World Bank is seen as providing funds for public goods that private capital would not find profitable, and helping poor countries promote economic development, much as public investment by governments plays a similar role in developed countries.

One of the contributions of the Seattle coalition was to demonstrate the fundamental flaws in this analogy. First, we are still very far from having a "global economy": more than 80 percent of the goods and services produced in the world today are consumed in their countries of origin. There are of course very powerful interests, such as transnational corporations and banks, who strive to shape policy so that the "tail wags the dog"-- that is, they want to subordinate national policy to the concerns of international trade and finance. International competition can also be used as a means of undermining many of the reforms that have been established in the developed economies over the past 150 years: regarding wages, unionization of the labor force, taxation of corporations, or environmental regulation. But most countries still have a wide range of potential economic policies that they can follow. For example, even a country as small as Malaysia found that it could successfully impose controls on the conversion of its currency during the Asian financial crisis, thus avoiding some of the crushing interest rate increases that neighboring countries used in an attempt to defend their currencies.[27]

Furthermore, the major institutions of the "global economy"-- the WTO, the World Bank, and the IMF-- do not play a stabilizing or regulatory role, nor are they necessarily even capable of doing so. This is not simply a case of less-than-optimal policy, or being influenced, as our Federal Reserve or other government agencies are, by powerful special interests. The problem is much worse than that. These institutions have a deeply rooted political and economic policy agenda, and it is not responsive to the interests of the majority of member governments or their people-- neither of which have much say in determining that policy.

The WTO was created as an explicitly de-regulatory institution, which seeks to break down barriers to trade, even if those barriers are an inevitable by-product of national governments' attempts to regulate commerce in the interests of public health, environmental safety, or national economic development. The G-7 governments that control it today would almost certainly allow it to stagnate and even self-destruct, before they would transform it into its opposite: an institution that enforces labor rights or environmental regulations by making these requirements for market access.

The exception to the WTO's de-regulatory agenda is of course the TRIPS agreement. In this case the WTO seeks to extend the national regulatory laws-- primarily those of the United States and other developed countries-- protecting intellectual property rights, as well as the monopolies created by them, from the competition of unrestricted international trade. And in this case, it is willing to use market access and other economic sanctions in order to force compliance.

The IMF performs a mixture of de-regulatory and enforcement functions, but its role as an international enforcer is nothing like the regulatory role of a national central bank. It is first and foremost a debt collector, which partly explains why it has been so slow and reluctant to cancel the debt of the HIPC countries, even though everyone acknowledges that most of this debt can never be paid. The Fund is worried about the precedent that it might set, and of course it also recognizes that the debt gives it enormous leverage to determine the economic policies of the indebted countries.

In the Asian economic crisis, the major effect of the IMF's intervention was to get the governments of the affected countries, especially South Korea and Indonesia, to guarantee the loans that foreign creditors had made to private domestic corporations and banks. The Fund did not act as a lender of last resort, as a central bank would do; in fact it did not even help to arrange a roll-over of short-term into long-term debt, which might have stemmed the economic damage earlier on. Nor did it supply the necessary reserves when the currency crashes began in the fall of 1997, which might have averted the worst of the crisis even earlier.

The Fund and the Bank impose numerous conditions on borrowing countries. Many of them have proven to be very destructive, most spectacularly in the transition economies: for example in Russia, where immediate price decontrol caused hyperinflation, rapid privatization led to widespread corruption and an explosion of organized crime, and, combined with "shock therapy," reduced Russia's national income by more than half in the 1990s. The Fund can also cause great harm when it gets its macroeconomic policies wrong in times of crisis. This happened in Russia and Brazil two years ago, where punishing interest rates and billions of borrowed dollars were used to defend fixed exchange rates that soon collapsed anyway; and in the Asian economic crisis, where unnecessarily high interest rates and fiscal austerity deepened the regional recession.

The Fund's "beggar thyself" policies, as Joseph Stiglitz has called them-- i.e., shrinking the domestic economy in order to reduce a current account deficit-- have caused or worsened economic downturns in many countries over the years. To understand how this could happen, one need only consider the situation of United States: we are presently running a record trade and current account deficit (the latter is about 4.5% of GDP) that is clearly unsustainable over the long run. One way to reduce this deficit would be for the Federal Reserve to raise interest rates until the economy falls into recession. As incomes decline and unemployment rises, people and businesses would reduce spending on imports, while exports would remain approximately the same because they depend on demand from our trading partners.

Although our Federal Reserve has a great deal of independence from public opinion, it would be very risky politically to reduce the current account deficit in this manner. But the IMF and the Bank, with the help of their creditors' cartel, can and actually do impose such policies in borrowing countries, because they are not accountable to the people who will suffer as a result, or even to their governments. This illustrates the most important problem with these institutions: until the majority of their member governments are able to decide policy, it is unrealistic as a practical matter to expect meaningful reform of these institutions.

Under increasing pressure for reform, the Bank and the Fund have engaged in dialogue with organizations representing civil society, and have devoted increasing amounts of resources to these relations. For example, the Fund's new Poverty Reduction and Growth Facility, replacing the Enhanced Structural Adjustment Facility, provides for participation of local NGOs in the construction of a "Poverty Reduction and Growth Strategy Paper" that is supposed to guide policy. But the most important macroeconomic policies are still decided by the Fund's economists. And most importantly, input from NGOs, however well thought out and well-intentioned, is no substitute for allowing the member governments to determine policy. Until these organizations allow for democratic control by their members, their legitimacy in the eyes of most of the world will continue to decline.

Harm Reduction

Although the year since Seattle has not brought the dominant globalizing institutions any closer to meaningful reform, this does not mean that real reform is out of reach. Rather, it means that economic reform will take place at the level of the nation state, as it has since the beginning of industrial capitalism. It is only because the size and scope (not to mention the benefits) of international economic integration have been so grossly exaggerated in media and policy circles, and because the actual role and function of the IMF, World Bank, and WTO are so misunderstood, that this is not obvious.

But reform in most of the world will require reducing the harm that these institutions cause, and the obstacles that they put-- deliberately or not-- in the way of sustainable economic development. The biggest success in this regard has been in the arena of the WTO, and was a direct result of Seattle: the indefinite postponement of a new round of negotiations that would have further eroded the power of national governments to regulate commerce in the public interest.

The year since Seattle has also seen some real progress towards harm reduction at the IMF and the World Bank, despite the lack of reform within the institutions themselves. One of the most important achievements was won last month (October), with the passage of legislation in the US Congress opposing "user fees" as a condition of multilateral lending. These are fees imposed on public services such as primary education and health care, many of which were previously available without charge. According to a World Bank review of its Health, Nutrition, and Population lending program, 75 percent of these Bank projects in sub-Saharan Africa either established or expanded user fees.[28]

Such fees can have seriously harmful effects, as evidenced by the enormous increases in school enrollment when they are removed: for example in Malawi, whose per capita income is less than $200 per year, primary school enrollment jumped by 50% when a small school fee was eliminated in 1994. The effects on poor people needing health care, especially in countries with high rates of HIV and AIDS, is even more devastating.

Over 120 non-governmental organizations-- including the AFL-CIO, the

Presbyterian Church, and Jubilee 2000 USA-- asked Congress to oppose the practice of imposing user fees. On October 25, Congress passed legislation which required the US Executive Directors at the IMF, World Bank, and all other multi-lateral development banks to oppose any loans which require user fees to be paid by poor people for primary health care and education.

This legislation marked a significant breakthrough for several reasons. First, it was the first time that the US Congress imposed enforceable conditions on the multilateral lending institutions in order to end an abusive practice, and in particular, one which involved the Fund and Bank's "structural adjustment" conditions attached to lending. Over the past decade and a half, conditions instructing the US Executive Director to use her "voice and vote" at the IMF to advocate certain positions had proved to be of little or no value-- partly because the Fund's executive board almost never votes, but more importantly because these instructions were not tied to any specific policies.

Second, it demonstrated the power of the United States Congress to change the policies of these institutions when it chooses to become involved. Treasury and other US officials have always exaggerated the extent to which the IMF and World Bank are truly multilateral institutions, and insisted that US legislation cannot affect their policies. But it took only one hour after this legislation passed the US House of Representatives for the World Bank to state publicly that it would no longer impose user fees on poor countries.[29] And finally, if this practice is truly ended, it will help millions of poor school children and other citizens who might otherwise have gone without these necessary public services.

Perhaps the largest effort at harm reduction in the last few years has been the movement to cancel the debt of the poorest countries. Foreign debt payments average about a quarter of export earnings in sub-Saharan Africa, and represent a considerable obstacle to sustainable growth and development in these countries. Since most of the outstanding debt can never be paid, those countries that are most successful in pursuing export-led growth strategies (as advocated by the Fund and the Bank) do not necessarily increase domestic living standards even where there is increased growth. More exports simply increase the amount of debt service that can actually be paid; in countries where exports are based on non-renewable natural resources, there is environmental destruction without necessarily producing any addition to the capital stock (physical or human) that would permit future growth that is less destructive of the natural resource base.

The Bank's controversial $3.7 billion Chad-Cameroon pipeline, which has been vigorously opposed by both domestic and international human rights and environmental groups, illustrates this problem. The environmental cost is potentially very high: the 650 mile pipeline will make seventeen major river crossings, and the oil companies have so far been unwilling to commit significant resources, or even adequate planning, to deal with potential oil spills.[30] Yet the project is moving forward with the Bank as guarantor and insurer against political risk, and most of the oil revenues received by the countries will be used to pay off foreign debt. Most of Chad's debt is owed to the Bank itself.

The debt also has immediate and staggering human costs in the poorest countries. The annual debt service paid by the HIPC countries is running at 25 to 30 times the $300 million that is spent annually on international programs to combat AIDS. Extrapolating from UN data on child mortality, Jubilee 2000 UK has estimated that some 19,000 children in poor countries die each day as a result of the resources lost to international debt payments.

In spite of increasing public pressure for debt cancellation, the IMF and the Bank continue to drag their feet. The HIPC initiative was launched in 1996, and of 41 countries promised debt relief, only one-- Uganda-- has so far actually seen its debt service payments reduced.

Conclusion

Seattle awakened the nation and the world to some of the worst problems that result from the path of globalization currently promoted by our government and major multilateral institutions such as the WTO, the IMF and the World Bank. Further action on the WTO's agenda remains on hold since the collapse of the Millennium Round one year ago. The debate over globalization has been altered, perhaps permanently, to include some of the concerns of civil society: poverty and inequality, economic instability, and the environmental costs of globalization.

But there have so far been no significant reforms of the multilateral institutions themselves, and little to nothing in the way of substantive policy changes. The executive branch of the United States government, which together with the other G-7 governments has the controlling influence over the agenda of these institutions, has also been resistant to economic reform.

This situation and experience indicates that the best hope for reform involves a strategy of harm reduction, which would limit the power of the multilateral institutions to impose harmful economic and environmental policies on national governments. A harm reduction agenda would include such goals as debt cancellation for poor countries, and the break-up of the creditors' cartel that is headed by the IMF and the Bank; an end to structural adjustment and other harmful conditions attached to multi-lateral lending; and the replacement of loans to poor countries with grants. The suspension of the WTO's new round of negotiations should continue at least until there is a thorough review and re-assessment of the results of institution's first five years, subject to public debate and ratification in member countries. Finally, the international expansion of intellectual property rights must be halted; most urgently, in the case of life-saving medicines and the AIDS pandemic, the right to produce and distribute low-cost generic equivalents must be restored.

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[1] Mark Weisbrot is Co-Director of the Center for Economic and Policy Research (CEPR).

[2] *The Economist*, November 11, 2000, p.85

[3]Federal Document Clearing House, Political Transcripts, December 1, 1999.

[4] "Global Capital: Can it Be Made to Work Better?" *Business Week*, November 6, 2000 (p.74)

[5] "Globalization: Unspeakable, Yes, but Is It Really Evil?" by Joseph Kahn, *New York Times* (May 7, 2000)

[6] See, e.g. "Assessment of Potential Risks to Human Health from Hormone Residues in Bovine Meat and Meat Products," Scientific Committee on Veterinary Measures Relating to Public Health, European Commission, 30 April 1999.

[7] Earlier this year the WTO ruled against a Canadian challenge of a French ban on asbestos imports. Some press reports attributed the WTO ruling, in part, to citizen pressure on the WTO. See e.g. Elizabeth Olson, "WTO Rules Against Canadian Asbestos," *Toronto Star*, July 25, 2000.

[8] See Radelet, Steven and Jeffrey Sachs "The Onset of the East Asian Financial Crisis." Harvard Institute for International Development, March 30, 1998.

[9] From *The Economist*, November 11, 2000: "Contrary to popular wisdom, the reason for the collapse in Seattle was not the presence of several thousand disgruntled demonstrators. Instead, it was the failure of the self-appointed vanguard of America and Europe to respond to the concerns of developing countries." (p.83)

[10] Bernstein, Aaron, with Elisabeth Malkin: "Backlash: Behind the Anxiety Over Globalization," *Business Week*, April 24, 2000

[11] See Dani Rodrik, The New Global Economy and Developing Countries: Making Openness Work, Overseas Development Council; 1999, pp. 137-43.

[12] See Francisco Rodriguez and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-national Evidence," May 2000.

[13] See Mark Weisbrot, Robert Naiman, and Joyce Kim, "The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization," September 25, 2000. Washington, DC: Center for Economic and Policy Research (www.cepr.net).

[14] In a recent interview President Clinton cited trade as "accounting for 30 percent of our economic growth, and we have the lowest unemployment rate in 30 years." (November 7, 2000, radio interview with Amy Goodman) Such statements crediting trade as having contributed to the current economic expansion or to low unemployment are common, but false. Since the United States has run continual and increasing trade deficits during this expansion, it is not possible under any economic theory to argue that trade has made this sort of contribution-- if any-- to either economic growth or employment. Furthermore, the efficiency gains from liberalized trade, and the contribution of foreign investment to growth, are also generally grossly exaggerated (see Weisbrot, Mark, "Globalization: A Primer," Washington DC, Preamble Center, October 1999, also at www.cepr.net).

[15] Data on Productivity from *Economic Report of the President*, February 2000.

[16] Data on wages from Lawrence Mishel, Jared Bernstein, John Schmitt, *The State of Working America*, New York: Cornell University Press, January 2001.

[17] Article 4, Intellectual Property Rights, in "Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area" (at http://www.ustr.gov)

[18] It is of course true that part of the monopoly profits from patents, for example, serves to finance research and development, and as an incentive to develop new products. But this does not alter the inefficiencies created by the

monopolies; an honest debate on the economics of intellectual property would weigh the costs of these inefficiencies against their benefits, as compared to alternative means of financing the desired research and development (see Dean Baker, "The High Costs of Protectionism: the Case of Intellectual Property Rights, Washington, D.C. [1999]).

[19] See Dean Baker, *Economic Reporting Review*, www.tompaine.com, e.g. week of October 28-November 3, 2000

[20] See Mark Weisbrot, Robert Naiman, and Joyce Kim, "The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization," September 25, 2000. www.cepr.net.

[21] See e.g., "Yeltsin Agrees To Closer Ties With Belarus," by Michael Wines, *The New York Times* (December 26, 1998.), where the reporter notes that "the IMF is essentially a proxy for the United States."

[22] "Poor Nations' Leaders Back Washington Protesters; Group Says IMF and World Bank Policies 'Stabilized Poverty,'" by John Ward Anderson, *The Washington Post*, April 16, 2000.

[23] See "Joseph Stiglitz: He May Have Criticised the Institutional Consensus on Too Many Points, by Nancy Dunne, *Financial Times*, November 25, 1999.

[24] Joseph Stiglitz, "Whither Reform: 10 Years of the Transition," paper prepared for the World Bank Annual Conference on Development Economics," Washington, DC, April 28-39, 1999.

[25] See "Author of Key World Bank Report Resigns," by Alan Beattie, *Financial Times*, June 15, 2000

[26] See Dean Baker, "NAIRU: Dangerous Dogma of the Fed," Financial Markets Center (Philamont, VA: 2000), also at www.fmcenter.org

[27] In spite of widespread opposition to this move from both multilateral and private foreign creditors, and the lowering of its international credit rating, Malaysia emerged from the crisis with the smallest percentage of lost output among the five countries. See World Bank, "East Asia: Recovery and Beyond," June 1, 2000.

[28] Timothy Johnston and Susan Stout, Operations Evaluation Department (OED) Report, "Investing in Health: Developing Effectiveness in the Health, Nutrition, and Population Sector," World Bank 1999

[29] "World Bank to Stop Pushing Poor to Pay for Health Care, School," Bloomberg News, October 25, 2000

[30] See, e.g., "The Chad Cameroon Oil and Pipeline Project," Environmental Defense Fund (USA), Association Tchadienne pour la Promotion et la Defense des Droits de l'Homme (Chad), and Centre pour l'Environnement et le Developpement (Cameroon).