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"PREVIEW OF IMF-WORLD BANK MEETINGS: WHAT TO EXPECT"

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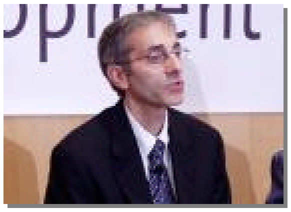


ROBERT E. LITAN: We want to welcome you here for hopefully an informative discussion about what's going to happen this weekend at the annual Bank and Fund meeting. So we have a terrific panel to answer your questions. I'll introduce them in a second. But basically the format is going to be short introductory points, no more than five minutes per person. We've sort of split it up by expertise, and it will become evident what individual people want to talk about. And then we're going to go to your questions, and hopefully we'll have an interesting dialogue thereafter.

Short introductions, all these people are either affiliated in some combination with the Institute for International Economics, the Brookings Institution, or the Center for Global Development, and in some cases you see some people are affiliated with more than one of them. So, I'm not going to go into long detail about who all these people are, but I'm going to start at the far right, John Williamson at the IIE is one of the foremost experts on exchange rates, developed the target zone proposal, and I anticipate John will be talking about exchange markets. That's just a guess.

We have next to him -- he's just changed his agenda. You don't have to, John -- Carol Graham, who is the director of our global governance program at the Brookings Institution, who has written widely on third world economic development issues.

And so has our partner here, right there, Nancy Birdsall, who is president of the Center for Global Development. She used to be at the World Bank, and is one of the world's foremost experts on economic development. And we want to thank Nancy also for helping to put together this conference.

To my immediate left is Lael Brainard, who is deputy director of the National Economic Council during the Clinton administration, he's an expert on trade and economic development issues, and one of my partners I work with at Brookings.

And far left, not necessarily ideologically, is Michael Kremer, at Harvard and also at Brookings, and Michael has written widely on many, many topics. But the reason he's here is, he's done a lot of work on public health issues in the third world, also education issues.

And our missing seat will hopefully be occupied by Bill Easterly. Bill Easterly is upstairs --

CAROL GRAHAM: No, over there.

ROBERT E. LITAN: Over there. Excuse me, that's right. He's arrived. Good, you're here.

Bill Easterly has written on the far right. Bill was with the World Bank for many years. He escaped the Bank and then wrote one of the best books, I think, if not the best book on economic development in the last 10 years.

So, we have a terrific panel, and I think were going to start with Nancy, and then I'm going to go random after that.

Nancy.

NANCY BIRDSALL: Well, thank you, Bob. You didn't introduce yourself, so for all those who don't know, Bob Litan is vice president for economic studies at the Brookings Institution, and one of the world's foremost experts on banking issues, domestic and international. And what I always remember about Bob is that he's co-author of a book with one of the best titles that we have in the international finance arena called Globalphobia.

I thought I would raise three issues, which you might want to ask more about as we go along. The first one that will be in the background in the context of this meeting of the IMF and World Bank is what I would call the fraying of the so-called Washington consensus, and I think that the fraying is particularly obvious in Latin America. Some of the issues that are in the air have to do with the question of has it been true that opening with capital markets has worked so well, what about conditionality, is it now off the agenda of the international institutions, the IMF and the World Bank completely and forever?

There is even new mention of what used to be the taboo word, or taboo expression industrial policy. Is there a desperate revisiting among the agenda now for some of the countries in the developing world of industrial policy?

And in that context, the whole issue of ideological contagion, especially in Latin America, being reinforced now by real contagion that we're seeing from the Argentine crisis coming up obviously in Brazil, in Uruguay real contagion, and now some other countries in the region where growth for this year is certainly going to be very low. And the ideological contagion in the context of the swelling of the protest movement not only the demonstrations that we have seen here in Washington, but a new cynicism about the global economy, especially in Latin America, and you saw it in Johannesburg recently, too.

A second issue that I hope will be on the agenda at these meetings will be the issue that Treasury Secretary O'Neill and the Bush administration have emphasized, which is making aid more effective, and because of the Bush administration's proposal for a Millennium Challenge Account which would involve a major increase in the U.S. foreign aid budget, there's likely to be discussion, if not inside the actual meetings, in the corridors among officials of what will be the U.S. role in keeping as multilateral as possible development assistance. Will the MCA be used in a useful way as leverage for effectiveness? Is that how the Bush administration and the U.S. will exert an influence on the aid game by trying to use the new money to make sure that other aid is as effective as possible, and is going selectively to countries where it can be used well, and will they use the MCA to leverage more assistance, more development assistance from other countries?

And, you know, it's interesting to think about in the context of the efforts of the U.S. now to make the discussion as multilateral as possible, will they do that with the discussion of a much less visible, but some might say more important medium-term issue for many more people, and that is the effectiveness of development assistance.

And here the question is really, how could the U.S. take leadership on that question in the multilateral context?

And the third issue that I wanted to put on the table has to do with a new round of discussion one hopes to see in these meetings of the HIPC debt initiative for developing countries. Will it be -- there is a straightforward money issue on the table. There are some commitments that remain unfunded. But there are bigger issues in a way that have to do with the HIPC program taking over too many objectives with too few resources. Will the donors get back to the old business as usual in the HIPC context, or will it really continue to be as it was meant to be, a breakthrough? And the signs are, unfortunately, it could get back to the old cycle of aid and debt and defensive lending, the track, and so on.

So, let me stop there with those three points.

ROBERT E. LITAN: Okay. Thanks, Nancy, for keeping to the time limit.

Our next speaker will be Lael Brainard.

LAEL BRAINARD: I just want to quickly preview in broad brush some of the big themes that come out more on the international financial side complementing what Nancy said. On the international financial side, probably one big theme can be summed up in the IMF managing director's words, the risks are attesting to the downside. Lots and lots and lots of focus on downside risk, I would imagine, in the quarter certainly, and in some of the meetings, especially the G-7. And the risks really emanate from industrial countries, and particularly the U.S. Risks to the recovery from continued stock market volatility, and questions arising with the IMF notching up the decibel levels a little bit further on the U.S. current account, further concern over the current account going over 5 percent of GDP.

The current account with diminished appetite for U.S. securities, so that's a second area, and there are question marks on the dollar, which I'm sure will be picked up later in this discussion.

And then finally war talk in Washington, what does that mean in terms of oil prices? What does that mean in terms of deficits? And no hope really on either Japan or Europe for picking up the slack.

Secondary risks of course is Latin America, lots of discussion on Brazil-Argentina with the political uncertainty there. Argentina uncertainty arising over whether it can meet its multilateral payments, what does that mean in terms of a program? And we have many other countries in the region either pending programs, or not being able to qualify for them but needing it.

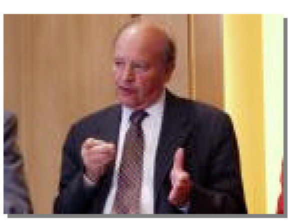
Secondly, on the financial architecture, expect some progress on this whole issue of the private sector, the whole so-called private sector involvement issue. A few months ago, we had this kind of proposal being put out there by deputy managing director Ann Kruger for a bankruptcy mechanism. There was a counter from the U.S. Treasury pushing back in the direction of putting contract clauses, collection action clauses into bond contracts, a more market mechanism. There seems to be somewhat of a convergence with the IMF working on both fronts, and the U.S. softening on the so-called sovereign debt restructuring mechanism as it moves towards a market-based statutory kind of an arrangement.

But big questions remain out there, which are more immediately obvious. What kind of leverage does the IMF have at moments like this on industrial countries, for instance? Very little, if any. What kind of leverage does it have on countries that do not immediately need to come into a program, but where we can see problems coming far out into the future?

And not a lot of answers there. And then, on the development front, as Nancy suggested, lots and lots of focus on how do we make Monterrey and the Millennium Development Goals real? The World Bank has said that it will focus somewhat on areas like debtor coordination. How does the Millennium Challenge Account fit into that. Is the new money that the U.S. is talking about going to be forthcoming. So far the actual budget requests have been extremely disappointing. HIV/AIDS walked back from $500 million supplemental this year, first to $200 million, then vetoed, then back with a $100 million proposal from the administration. So, this looks good, but in the short-run it doesn't seem to be very real.

And then trade, trade will also be emphasized both by the World Bank and the IMF. They're looking very sharply at this issue of agricultural trade reform. The IMF has some numbers out on what this could mean to the developing countries, and the World Bank is also emphasizing how big a number could come from real trade reform for the developing countries, much larger than is envisioned on aid.

ROBERT E. LITAN: Okay. Continuing in the spirit of randomness, we're going to go to John Williamson, and we're going to see what subject he comes up with.



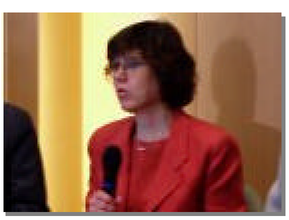
JOHN WILLIAMSON: Well, I hadn't, in fact, planned to talk very much about exchange markets because I don't think that the developed country exchange markets are going to be a major focus at this stage, some of them might like them to be, but I don't think that's going to happen. So, let me focus on the exchange market in Brazil, and talk about the Brazil problem, which I don't think figures on the agenda, but it's certainly going to be an important background issue because if, in the end, Brazil is forced into the sort of practices that

Argentina has been through, then I think the implications for the sort of liberal world economy that we thought 10 years ago was emerging are going to be very serious. I don't see that as being a sensible policy stance. I don't think it will be a deliberate policy of whichever president is elected in Brazil. I don't for a moment believe that Lula and his party will deliberately go out and go down that road.

On the other hand, we have seen that the financial markets are not -- are pushing Brazil into a situation where there aren't any good alternatives. It's a council of despair to end up in the debt of construction, but it's one, which the financial markets look as though they're pushing the country to at the moment. I argued the policy brief recently at the Institute about this, but this is a classic situation of multiple equilibrium. It's one in which the Brazilian debt dynamics could be sustainable if Brazil got offered reasonable opportunities by the markets. But, if the exchange rate is pushed even more, and the interest rates on Brazilian debt go so high that it's impossible for Brazil to borrow on reasonable terms, then that is a situation that is not sustainable. And I don't think the alternative of debt reconstruction is going to be at all attractive to Brazil. The idea that this is an easy way out I think is absolutely false. I think it would be worthwhile for Brazil to make quite significant investments in avoiding that, but it's one where nevertheless one can't say that irrespective of what happens in the financial markets, Brazil is going to be in a position to avoid that.

So, it's primarily in terms of debt GDP, public sector debt much more than in terms of the external situation. And I think the depreciations that's already happened has led to a major improvement in Brazilian back payments position. I don't think that's exhausted yet, and I do think that the investment banks are underestimating the impact that is going to have on next year's balance of payments. So on that front I'm reasonably optimistic. I think Brazil has much better opportunities in this crisis than Argentina had, given the certain policies that it was pursuing, but nevertheless there's a real danger and disaster happening in Brazil. And that's something that's bound to influence the discussions that are held in this next week.

ROBERT E. LITAN: Okay, John. Let's go to Carol Graham next.



CAROL GRAHAM: I wanted to talk a little (audio distortion) -- let's see, I guess this is working.

Okay. I wanted to talk a little bit about some broader and bigger, unresolved development challenges that will certainly be in the background of the meetings, if not directly on the agenda, though some may be directly on the agenda. The first is to note that these meetings are being held in a slightly different context from a year ago, which is this whole renewed focus on development issues, the administration's proposals with the Millennium Challenge Account, and big new focus on the poorest countries, and this is certainly different, and it's undoubtedly positive. On the other hand, I think the amount of attention going to the plight of the poorest countries has also diverted attention from some quite serious problems that face the middle income countries, and certainly I think the case is for many more poor people in those countries. And some of the issues cut across both the middle income and the poorest countries. So I wanted to talk about three unaddressed problems in the international financial architecture that pose some real development challenges.

The first is the failure, or the inability of the current system and structure to help deal with, and resolve crisis that ultimately stem from governance failures, and this is a challenge which cuts across from the poorest to the middle income countries. At the level of the poorest, the whole issue of who do you let into-- who do you give access to the MCA funds, certainly the poorest countries with the weakest governance and the most corruption are the ones that most need aid. But, there's also the situations where we know that aid is least effective, and I'm sure Bill Easterly will talk a bit more about this. But, the issue of how do we deal with governance issues in the poorest countries as we think about aid effectiveness and development going forward. And then on another level, the Argentina crisis, for example, is clearly a failure of governance. The Argentines relying on rigid macro policy to make up for a governance failure. When the crisis blew up we call in the IMF, which has neither the tools nor the mandate to resolve governance issues. And so we put the fund in a catch 22 situation, and then bemoan its incompetence. It doesn't really solve the underlying problem of governance. And even now in the sense of what's happening in Brazil, it has a lot to do with investors fears about Brazil's politics, and very little to do with fears about fundamentals in the economy. So I think addressing governance issues as part of the development package is a big challenge as we go forward.

A second and related issue is the whole issue of ownership, that is countries -- policies that aid supports really being owned by the countries where they're being implemented, by the developing countries. And ownership in a way is the new magic bullet in development thinking. The PRSP [Poverty Reduction Strategy Papers] process in which local governments are supposed to design, and come up with their own poverty strategy is certainly a positive step forward. But, on the other hand it poses all kinds of new challenges that I'm not sure were resolved. What do we do when a country owns a bad policy? For example, the Argentines owned the exchange rate policy, they voted for it repeatedly. So there's a big question on how -- in this move, and new enthusiasm about ownership, how do we deal with ownership of bad policies, and countries with weak governance coming up with bad policies? Again, an unresolved crisis that will be an issue that will be in the background of the meetings, and it's certainly a development challenge.

And then finally, the whole issue of insecurity and lack of social insurance in a lot of developing countries, and often driven -- and where insecurity is often driven by movements in the international financial markets. And here I'd point to two levels of issues. One is in the case of volatility driven by financial market involvement. Certainly, some of -- you could hardly blame Argentina's crisis only on financial markets by any means. There are also additional spill over effects, whether or not you want to call them contagion, countries like Brazil and Uruguay are facing potential and actual major costs due to macro crisis, and there is no real safety net. And there's still no mechanism to bring both sets of players, lenders and investors, as well as buyers to the table. The IMF's sovereign debt proposal is one step, but it's only part of the problem. The whole other issue is sort of asymmetric involvement in the system and the kind of asymmetric outcomes that arise in certain situations. It's something that Nancy has written about recently, and would be well worth explaining in the questions.

And the last related issue, in terms of insecurity and volatility is the absence of safety nets, social insurance, in the developing countries themselves. In Latin America, for example, now looking at some new data for this year, it's very clear that there really is a possible, or a potential, whether you want to call it ideological contagion, backlash, eroding of the Washington consensus, as Nancy phrased it. Where people that were traditionally pro-market, wealthier, more educated people, are now really questioning this whole Washington consensus liberal reform policies. And I think a big driver for that backlash, or potential backlash has to do with lack of adequate insurance mechanisms. Only one or two countries in Latin America have unemployment insurance, for example, and even then it covers a very small part of the population. So I think these are issues that in the end could, if they are not resolved, could undermine our ability to go forward in the kind of integrated global economy, that as John mentioned ten years ago we thought we were going forward with very nicely.

I'm going to stop there.

ROBERT E. LITAN: Mike Kremer?

MICHAEL KREMER: I'm with both Brookings and Center for Global Development, I'm involved in a new joint project on effective aid. I think a lot of issues have come up already. Certainly, the world economy would be one big issue, and within that there's been some discussion of what the potential impact would be of the war with Iraq, and oil prices, and thus in the world economy. I think there a lot depends on how the war is -- the consensus for war is brought, and how the war is conducted. If the Saudis are going to accommodate any temporary disruption of the world oil market by releasing more supplies onto the market, I think the short run impact on oil prices can be limited. And of course, the long run impact on oil prices could be to drive them down if there's a new regime in Iraq. So if the Saudis are on board, if the war is conducted quickly, I think there's not much to worry about on those grounds, although there are other issues regarding the larger U.S., European, and Japanese economies.

On the issue is crisis, I think its interesting to note that Turkey, which was considered to be just as vulnerable, has actually been doing reasonably well, and Mexico has been doing fine, doing very well. One question that arises is whether that's because the world investors, the financial markets, believe the U.S. will back Turkey and Mexico for strategic reasons, and perhaps isn't willing to go as far for Brazil or Argentina. If so that might have implications for the design of financial architecture, and perhaps for trying to provide greater support to other countries to avoid crises in the first place. Then the question of programs, the DAT, and the HIPC program, I think in some cases the discussion of this in the press and by activists makes it sound as if this is new money. Of course, in many cases this is a question of whether loans that would be rolled over anyway are simply written off, because the countries aren't going to pay them back, and then it's a question of what's the accounting treatment of this, and I guess we've learned recently that accounting can be very important. It can certainly affect the bargaining position and the influence of the World Bank and IMF in the future. Of course, there are other cases where this is really new money that the countries would otherwise be paying back. In that case, I think there's a potential tension should funds be going to the countries that have accumulated debt, or should any available aid funds be going to other countries. And there may be issues of what countries have the best governance, and the best prospects for using the funds well. Of course, there are certainly some cases where that tension wouldn't be a problem.

On the trade issue, the World Bank is citing a lot of big numbers about the potential gains to developing countries from getting rid of some of the protectionism, particularly in agriculture markets. I think that certainly reform in this area would be very important to developing countries, but I think it's important to look inside, look at the very specifics, by commodity, because the effects of liberalizing agriculture markets depend very much on which commodity you're talking about. If you're talking about cotton, then subsidies in rich countries are directly impoverishing farmers in some of the very poorest African countries. If you're talking about sugar, the picture is more complicated. Through the quota system some developing countries are very much hurt by subsidies for sugar, other countries are allowed to bring their sugar into rich country markets, and benefit from this. So it's important to disaggregate that. And finally, if you looked at wheat, or crops that are mostly exported by rich countries, the subsidies may, in fact, create a net transfer to poor countries, although they may have distributional consequences between farmers and urban people within poor countries.

I think one area within trade that I think maybe deserves more attention -- agriculture certainly deserves a lot of attention, but another area that deserves equal attention is manufactured exports, particularly the bottom end. Exports of manufacturers have been a route out from poverty for many developing countries, and I think it's important that the rich world not block that off. The NFA is scheduled to be phased out, and I think it's important that we see that that happen, at least as far as poor countries go.

I also just wanted to say a bit more about aid effectiveness. I think that there are some important principles in trying to make aid more effective and one is to focus on what's worked, and what there's evidence has worked in the past. One area that I think has clearly worked is the green revolution. In the 1960s India was facing famine, now it actually has a surplus of grain. The key reason was the green revolution. I think that sort of investment in science for the problems facing developing countries is something that could be used more, but not only for agricultural problems, but also for the health problems in developing countries. Developing countries need a malaria vaccine, they need treatment for tuberculosis, better vaccines for tuberculosis, there are other diseases that are affecting developing countries disproportionately. The other thing I would say on aid effectiveness is to look at cases where there have been programs where we really have quite rigorous evidence on what the impact is. So one example would be the progressive program in Mexico. This is a program that had to be phased in gradually, due to budget constraints and administrative constraints. And the order in which it was phased in to different villages was determined randomly. So by comparing the villages where it had been phased in to the ones where it had not yet been phased in, we determined the effect of the problem. What the program did was provided grants to families if they kept their children in school, and if they got prenatal care for their kids, and other basic healthcare. And this program clearly had positive effects on education and on health. So that's something we know works. If we could use more approaches like that, where we find out first, and very carefully evaluate what's working in development, and if it is working, then continue to fund them.

I think a big problem in aid is sort of continually looking for new projects, because the bureaucrats of aid have to justify their existence by saying, here's a new idea. Let's find out what's worked in the past, and stick with it.

ROBERT E. LITAN: Okay. Let's turn finally to Bill Easterly, who is the world's leading Cassandra about what doesn't work on aid programs.

Bill.

WILLIAM EASTERLY: It says in the scriptures the right shall be last, but also the last shall be right.

If we follow the Chinese style calendar, like the year of the snake the year of the rooster and so on, I think we would call 2002 the year of the summit. We've had the Monterey Summit on Financing for Development. We've had the G8 Summit, which was also a lot about economic development, which was held at some undisclosed location somewhere in Canada. We've had the Johannesburg Summit, and now we have the Bank-Fund meetings. I think at this point we're all suffering from some form of exhaustion. The experience of these summits has been kind of disheartening, because we've seen an explosion of big picture development, development -- you can't even call it economics anymore, big picture development everything, where development is now defined so broadly, and with so many different goals that it's become even more impossible to meet the objectives of achieving economic development. If it was difficult before to achieve economic growth when we had a smaller number of objectives, then how much more difficult to comply with the 185 action recommendations that came out of Johannesburg. So I wonder if at this point we don't want to get out of the cycle of summits, diverted by big picture development, each summit dedicated to cleaning up the disarray that was left by the previous summit, and so thereby being self-perpetuating, if we don't want to get out of that cycle of big picture development summits and start thinking about the small picture.

After all, a lot of the big picture initiatives have already been tried, and they've failed decisively. We've tried structural adjustment, and that failed, it's now being retried as the poverty reduction and growth facility at the IMF and the World Bank. We've tried HIPC, and that failed to resolve the debt problem of the low-income nations. Then we tried enhanced HIPC, and that failed to resolve the debt problem, and now at these meetings we're going to try something which probably will not be called enhanced, enhanced HIPC. We've tried giving foreign aid to governments national development programs, that failed, and that is still being tried in its current embodiment as the poverty reduction strategy proposal that will be put forward by each country, in a country-owned way. All of these things have failed, and yet we keep on trying these failed, big picture things over and over again. So I wonder if at this point trying to be a little constructive, instead of just destroying everything all the time.

So in the one-minute remaining to be constructive, let me advocate that small is beautiful. Let's go from instead of having as our slogan, save the Earth, let's just have as our slogan, save some poor people, some of the time, from poverty, somewhere. Instead of having a slogan, change the fate of nations, let's have as a slogan, change the fate of a village, one household at a time. Through some of the small interventions that Michael talked about, there are specific programs that work, there are specific interventions that work, there are specific types of grants that we can give directly to poor people, bypassing all these huge international and national bureaucracies, conditional on them spending the money on health and education, and development. I think small will increasingly turn out to be beautiful as we collapse from sheer exhaustion and big picture development summits, and go back to basic common sense.

ROBERT E. LITAN: Well, good, we accomplished something, we heard a constructive suggestion. Okay. Now, what we're going to do is go to the floor for questions. We have -- this is the only mike? Okay. Somebody has got to be in charge of passing around a mike.

WOMAN: You can also shout.

ROBERT E. LITAN: You can also shout, and I'll try to rephrase the question.

All right. I've got one hand up over there. Let's try to identify yourself, and then ask a brief question, and hopefully the microphone goes all the way to you.

SHAWN SUNDERLAND: Thank you. My name is Shawn Sunderland, I'm with the Canadian Embassy. G7 finance ministers have for a number of years now called for a greater coherence among the IFIs, and we've seen that work itself up a little bit, vis-a-vis the HIPC program, we've seen it work itself out with the PRSP, and now of course there are calls for greater main streaming of trade policy, and technical assistance for trade into country development programs. I'd be curious to hear your views on, (a), has this been a success, are we seeing more coherence in CRFIs; and, (b) if not what can we do to improve it? Thanks.

ROBERT E. LITAN: All right. Who up here wants to talk about that?

NANCY BIRDSALL: Sure, you know, it's an age old challenge to have what I think you're referring to primarily as coherence between the IMF and World Bank. And, in fact, there still are differences despite heroic efforts to be coherent. One of the differences that's quite interesting is that the IMF has been much quicker to go back into the indebted countries, or the heavily indebted poorest countries with large loans with their PRC ACT facility than has the World Bank. One cynical analysis would say that that's happened because the World Bank has alternative ways to move back in with project lending. The IMF has gone back in with the big structural, so-called program loans, or stabilization loans. But, in general I think the progress between those two institutions, which will always be difficult, is better. It's better than it was 10 or 15 years ago. The more central problem for the developing countries is the lack of coherence across policies of the U.S., of Europe, of Japan. There were allusions to that, that the amounts of money that go in terms of foreign aid, are eclipsed, that's good policy toward developing policy, let's say, those amounts are eclipsed by bad policy in terms of the trade regimes in the developed countries.

So I think it is important that both the IMF and the World Bank at this meeting are putting lack of access to rich country markets for poor countries on the agenda, and are trying to nudge each other, the countries, the rich countries are trying to nudge each other, you could hope, through the mechanism, the multilateral mechanism toward better trade policy. That's interesting. But, the fact is that if you look across policies that include energy, and the farm -- agricultural subsidies, energy subsidies, the real lack of coherence that's a problem for developing countries is not between institutions, but across policies, where the unintended consequences, you might say, especially trade, agriculture, and energy policy, are very difficult for developing countries, not to speak of the incoherence, sometimes, in areas like intellectual property rights and migration issues. Those are not policies that are designed to be friendly right now to globalization, the best aspects of globalization, from the point of view of developing countries.

ROBERT E. LITAN: Okay. I think what we're going to try to do is limit this to one response, only because we have so many questions. Anybody on this side? I'm going to go back and forth. Right here, in the front.

FEDERICO MANA: Federico Mana from American University. I was interested in what the panel would think about the policy that certain countries have in restricting the GMO foods, in response to -- I forgot your name.

MICHAEL KREMER: Michael.

FEDERICO MANA: In response to what you said about the green revolution enhancing the future of prosperity throughout the poorest countries, and how some countries are reacting against the green revolution, as a fear of genetically modified foods. I'd like to know what the panel thinks.

MICHAEL KREMER: I think this is a tragedy. Genetically modified foods are what we eat in the U.S. If they're dangerous the dangers seem to be -- they seem to be fine so far. It's one thing for Europe to decide that they don't want those. But, when the countries that are facing famine, as some countries in Southern African are, say that they're not going to accept these, I think that shows the huge distance between the leaders of these countries and the people of the countries who need the food. There aren't steps that can be done. Once some countries have just said, we want the food to be milled, to make sure that it can't be planted, so it doesn't get mixed in with the local supplies, they claim to be worried about dangers of exports to Europe, that Europe might not want to accept exports if it interfered with the local supply. Other countries have just turned us down altogether. I think this is another example of something like what happened in South Africa, where the progress of fighting AIDS was held up by conspiracy theories and pseudo-scientific theories that HIV was not responsible for AIDS. I think this is something that has to be deplored.

ROBERT E. LITAN: Okay. We're going to go to this side. Anybody on this side? If not, over -- all right. At the last minute, saved by the bell.

MICHAEL KREMER: One other thing I think maybe could be explored on this, if the countries are going to maintain that attitude -- basically the U.S. is offering to donate this food, perhaps some sort of swap could be arranged. India and China have plenty of grain right now, perhaps they'd be willing to take -- I assume they'd have to take some commission, but they could take the U.S. grain, send some of their grain if they had some grain that's not genetically modified, to these African countries.

ROBERT E. LITAN: Okay. Remember, name and then question.

TAMAR GUTNER: I'm Tamar Gutner also from American University. And I wanted to ask the panel if anybody thinks the anti globalization protestors will have an impact on the conduct or the substance of the meetings?

ROBERT E. LITAN: I think we were talking about exactly that question. Who wants to tackle that? Carol?

CAROL GRAHAM: I think one of the things that there's a bit of a disconnect between the message and the rationale behind the protests, and often the issues they're trying to address. And so I think that -- there seems to be a disconnect between the message and the objectives of the protestors, and the cause that they're trying to address. If they are indeed concerned about global poverty reduction and inequality, and the kinds of things that they express to be concerned about, the villains that they attack seem to be the wrong villains. For example, they attack trade, or they attack growth, and there's also a disconnect between the meetings and the agenda of the protestors. All of that said, which is the more cynical response, I do think that the over time persistence of this protest movement has had certainly caused some thinking in the development community, in the IFIs, whatever, about what are we doing wrong. If anything, why is the -- why are our efforts so misunderstood. These are not all people -- as Jim Wolfensohn said one day in addressing one of these meetings in private he said, I don't think that the 5,000 people at the World Bank get up every day and say, we're going to work to do bad for the world. So there's obviously many, many well meaning people in these institutions that know a lot about development, and have a lot of experience, and yet that's not the message that you get from the protestors. So I think until the protest movement becomes more structured and focused in what the specific policies it would want to improve, rather than a sort of vague anti-everything movement, I don't think it will really have impact on the actual content of such meetings. At the same time, it certainly seems to symbolize the sort of sense of injustice in the global system that pervades not just the protest movement, but also increasingly the public in developing countries. And it certainly highlights issues that need to be addressed, even if the movement isn't particularly good, itself, at highlighting the right issues, at least in my view.

NANCY BIRDSALL: I'd like to add something that I'd say it a little bit more friendly to the protest movement, if we call it that. One is, I think it is being transformed from an anti-globalization movement to one of managing globalization. So to the extent the protests take place here in Washington, a lot of the impetus behind them has to do with getting these institutions to do more in their management role. And the fact is that we are missing institutions at the global level that can be substitutes in a different way for what national governments do at the national level. So one thing is consistent with what Carol said, maybe not today, this year will those protests change the agenda that's already been set. The fact is that over the last five years and more it is the protest movement that has put the debt of the poorest countries on the agenda, that has put the unfair trade regime, the lack of access to rich country markets on the agenda, and that in the future I suspect will put new issues on the agenda, including making representation of developing countries in the World Bank and the IMF greater, so that those institutions begin to look more democratic, and possibly then to be more effective.

ROBERT E. LITAN: Okay. I have a feeling we could go on all day about the protest movement. So we're going to go onto back there, on this side.

QUESTION: I can just yell.

ROBERT E. LITAN: Yes, you've got a loud voice.

QUESTION: You mentioned governance reforms, governance issues in Argentina, I'm curious, the Fund has gotten involved in some governance issues through the Financial Stability Forum, accounting, and those standard type issues. And I'm curious as to your opinion on the Fund-Bank cooperation in putting together projects to, I guess, build sounder institutions in developing countries, as well as Bank-Fund multilateral development bank cooperation.

CAROL GRAHAM: Well, the record of the Fund and Bank and multilateral development banks in reforming institutions such as financial sector institutions, regulatory agencies, that level of institutions I think tends to be pretty good, even though it's a difficult area. When you get into the murky areas, that are equally important, if not more, to governance, such as judicial sector reform, or a reform of political institutions, political accountability, all of which are areas where these institutions don't really have a mandate to operate, and where recipes for reform are much less clear, I think then it's a much, much more difficult area, and one that we know a lot less about. And the institutions themselves don't really have a mandate to be involved in judicial reforms, maybe on the edge, but other issues are much more difficult. And that's where I think -- I certainly don't have the answers, but I think a lot of new thinking is necessary, in terms of how do we deal with countries with very corrupt governments, for example. It's not necessarily the case that it should be the IMF that's responsible for trying to solve these problems, and do we need another mechanism? I just think there are really a lot of open questions out there.

ROBERT E. LITAN: Okay. The gentleman in the back, over there.

QUESTION: (Inaudible.)

ROBERT E. LITAN: I'm getting a volunteer that I should talk about this, but do you want to talk about it?

LAEL BRAINARD: Yes, I think the issue of the non-performing lines in Japan's banks has risen to the international stage many times now, but the Bush administration clearly made it top of their agenda, and I think surprised Prime Minster Koizumi by opening the meeting with that issue. It clearly is of international concern, because Japan's continued weakness is creating difficulties for growth in the rest of the world, especially with the U.S. weakening. The Bank of Japan's move I think was surprising, it was bold, it clearly was a play to get the ministry of finance, and the Japanese government to come back into the policy arena with proposals that would actually inject capital, but at the cost of some managers being fired. That isn't happening yet but that's clearly the missing ingredient. So, it's interesting and it will be interesting to watch this play out.

ROBERT E. LITAN: Question on the right over here. The gentleman back there, I think you had your hand up first.

PAUL BLUSTEIN: Paul Blustein with The Washington Post. The question can be for John or maybe Nancy, I'm not sure. About Brazil, every time I look at the flyers from Brazil I see it's either markets go down because Lula is up, or markets go up because Lula is not as up as he was. So, I want to be a little bit provocative here and ask, what does this really tell us about the Zeitgeist, the state of the Washington consensus? If the markets are delivering the message that if you go this route, we'll make you a dead duck, why is that not sending something of the opposite message, or leading the opposite result from what you were suggesting, John? And I think I know from reading the paper what you think about this, but if others wanted to jump in on that.

ROBERT E. LITAN: John, and I think Nancy probably won't be able to resist.

JOHN WILLIAMSON: Well, I'm slightly mystified by the end of your question, Paul. I'm not sure if the opposite message of what I was wanting to say, I'm not sure what you thought I wanted to say that has an opposite message to that. But, it is very clear that the financial markets don't trust somebody with a left wing background, and a left wing history. There's nothing new in that. When I entered the British Treasury in 1968, it was a few months after the pound had been devalued by a socialist government, and the markets didn't trust it one bit. And they went and speculated for another ten months about when the second devaluation of the pound was coming. Of course, there wasn't a second devaluation. There was a policy regime in place which was viable in the longer-term, and it was a case of toughing it out until that could be shown. And when a socialist government had shown that it was prepared to do that, then the markets finally lost their fear of the socialist government in the U.K. And there wasn't any big crisis the next time that they had a left wing government.

And I think that Brazil is going through that same process now. Clearly, the financial markets are going to make it difficult for Lula if he is elected. And I believe that his best course of action, even then, would be to try and tough it out, but it will undoubtedly be a difficult first year or so. And, so, I'm not sure if that answer clarifies what I was initially arguing, or whether it makes it compatible or what. Anyway, that's my basic feeling about where we are now, that there's nothing new in the markets doing this. Every country, it seems, has to go through this process at some stage.

NANCY BIRDSALL: I would put it, Paul, as the markets are right on one thing and ill-informed on another thing. What they're right about is what you might call the Pedro Melan-Arminio

Fraga effect. They know that a Lula win represents the end of close to A-plus perfect macroeconomic management in the ministry of finance and in the central bank. And, in particular, I would emphasize not only the Arminio Fraga effect that everybody talks about, but the Pedro Melan effect which is that the Ministry of Finance often spent less than the congress authorized and appropriated, and that that was key to the fiscal discipline that Brazil did manage to achieve. And it's true, the markets are right, it's hard to imagine that Lula can put together a team that reaches that level of perfection. So, we face in Brazil the end of brilliant management.

The markets, at the same time, are ill-informed, and I think this is a point John has made very well, because they see in Lula, it's too simplified a view. He is a leftist who might renege on the debt. And they're ill-informed not only about the specifics of Lula's position, but I think that in a very deep sense they are not sufficiently sophisticated about the depth and the nature of Brazil's democracy today, and about the likelihood that there are checks and balances, there will be responsiveness to market challenges, that it is not the olden days. And here is a case where I think more information might, at the margin, help, and why it is so important that the IMF has done the $30 billion package, because it is a signal that those who are supposed to know more about and be in a better position to predict the political future as well as the economic future are suggesting that they think that Lula or any other victor will sign on to responsible fiscal management.

ROBERT E. LITAN: Actually, let me pursue that question because this is the heart of the current problem. If the markets are wrong, as you say, Nancy, and we get --

NANCY BIRDSALL: Ill-informed,

ROBERT E. LITAN: Ill-informed, in this respect, and we get a run on the real after Lula wins, let's say, should the IMF then accelerate its disbursement of the money under that $30 billion package?

JOHN WILLIAMSON: I think it's difficult to be sure without knowing the circumstances. But, if there's a run at that stage, it's essentially capital flight, because the banks, the big banks, are locked into this agreement to rollover the loans. There's very little need to refinance public sector debt in the short-term. So, the big thing that could happen would be capital flight.

NANCY BIRDSALL: Which would be just like Argentina.

JOHN WILLIAMSON: I mean, certainly there was a lot of capital in Argentina. But I think probably the -- it's right when there is capital flight to make it clear that people are going to pay through the nose if they park their capital abroad and then have to bring it back a few months later. And, you know, they have to undertake a real bet at that point. And so the solution would be to let it grow even some more than it has done. I mean, it's way over-shot already. Let it overshoot some more. That's probably the least bad thing to do in those circumstances, rather than to put in a lot of money to finance capital flight which then could develop its own momentum. I think it probably would be better to bring it to a halt through having yet a third depreciation.

ROBERT E. LITAN: Okay. I couldn't resist the intervention.

I think we're over here, we're all the way to the back, to the woman in the back who I can't see.

JENNIFER WEBB: Hi, my name is Jennifer Webb with Swift Interaction. And would you speak more directly to the Millennium Challenge Account, the current status of this possible account, and specifically to the possible links to the Millennium Development Goals, and to the Bush administration's contribution or in fact obligation to these international goals. Thank you.

ROBERT E. LITAN: Nancy, or, Michael, do you want to?

MICHAEL KREMER: Nancy, go ahead.

NANCY BIRDSALL: Well, I think that the Bush administration as a deep background has the Millennium Development Goals in mind. You can say that there was an elusion to the Millennium Development Goals when Bush announced the Millennium Challenge Account. At the same time, the administration has made it very clear that the fundamental objective, if they have their druthers, if they're able to put together this program and get it passed through Congress, the fundamental objective of the Millennium Challenge Account is to do two things, one is to use money well by selecting those countries where it's most likely to be used well; and the second, I would interpret, is to use money well in terms of being consistent with U.S. taxpayer values. The money should go to countries that have clear, honest, competent governments, where there is not a kleptocrat, where there is not the capital flight, where there is not corruption. And that doesn't directly address the Millennium Development Goals, only indirectly. It is much more focused on ensuring in the short-run that these countries use the money well to grow, and that is what Undersecretary John Taylor said last week in his discussion at a public meeting of the Millennium Challenge Account.

Some of us would say that it's all terribly consistent, and that growth is critical to meeting the Millennium Development Goals, but it's obvious that the administration hasn't tried to stretch itself to a point of linking directly the MCA to this goal or that goal.

ROBERT E. LITAN: Mike, do you want to add something?

MICHAEL KREMER: I'll just add a bit. I agree with Nancy that the Millennium Challenge Account is focused primarily on restricting assistance or focusing assistance on the countries that are doing the best job. I do think that I have a somewhat more optimistic view of the connection, I think we probably agree on this actually, between achieving that objective, and advancing the Millennium Development Goals of fighting AIDS, improving health, improving education, reducing poverty. The countries that do have good governance, in fact, are probably most likely to be able to use large amounts of aid effectively.

NANCY BIRDSALL: Well, I think the Bush administration has recognized the importance of that in selecting the countries that would be chosen. I think to try to achieve both the goals of the Millennium Challenge Account and the Millennium Development goals, the structure is going to be important. In particular it's going to be important to make sure this is focused on the very poorest countries. If the Millennium Challenge Account funds are going to richer countries they may be going to countries that have good governance, to middle income countries, but they're not going to be doing so much to fight illiteracy and the very poor health conditions, which are really problems of the very poorest countries.

Second, it's important to focus the Millennium Challenge Account to focus its objectives on a small number of countries, otherwise you degenerate into a system where every country says, well, we need -- every country gets something, the money is allocated along political lines. But, if that's done there are still many other countries where there are many poor people who have terrible education and health conditions, who don't happen to live in a country with the best governments. So ways have to be found of reaching those people. One possibility, which Bill suggested, is not to work with governments, but to work through non-governmental organizations, private schools, for example, that are providing education and healthcare, and sometimes doing so much more effectively than governments are.

Obviously, in countries where the government is doing a good job it makes sense to work with the government. In other countries that may not be possible.

ROBERT E. LITAN: Okay. Right back there. Hold on, I'll get you next.

HERB CHAPMAN: Herb Chapman, I work for Bloomberg Radio. The former chief economist of the World Bank has uttered some harsh criticism at the IMF, first in an article then a book. I wonder the extent to which you think that his remarks are well taken, and select those that are, and whether they've had any impact on his former associates.

ROBERT E. LITAN: Okay. For those of you who didn't hear the question, Herb was referring to Joe Stiglitz many publications, and whether any one here on the panel wants to address whether or not Joe is having a positive or negative affect, I think, on the world. That's a transformation of the question, but I think Herb would accept it.

Bill, do you want to start?

WILLIAM EASTERLY: I think -- I remember someone saying one time that there are two kinds of geniuses, there are those that are almost always right, but not brilliantly right, and then there are those who are sometimes brilliantly right, and then most of the time they're wrong. And I think there is some support for putting Joe in the second category. Joe is uneven, he is sometimes brilliantly right, his work on information asymmetry won him the Nobel Prize, was a tremendous contribution. He's courageous and brave in pointing out the things that have not worked out well in IMF's management of crises and management of developing countries. I don't know why he stops with the IMF, I wish he would sort of spread his fire more broadly to include other development institutions, including his former one. But, he is courageous in taking that on, he's probably done the world a service by doing that. But, then some of the positive recommendations I don't think make much sense. Sort of Keynesian demand expansion as the answer to any crisis I think is not the way to go. Most countries are not suffering from a lack of Keynesian expansionism, they're suffering from government macro-mismanagement, and excessive fiscal deficits from the past, and from supply constraints, not from demand constraints. So Joe is brilliant, but not always right.

JOHN WILLIAMSON: Absolutely.

ROBERT E. LITAN: Anybody else, because I have one comment I can't resist making. Michael, why don't you go first.

MICHAEL KREMER: I just wanted to say, I asked a colleague who I won't name what he thought of Ken Rogov's remarks on Stiglitz, he said, he was too easy on them.

ROBERT E. LITAN: I guess the only point I would add to this is that Joe expresses unbelievable certitude about what is wrong, and what has been wrong with IMF prescriptions in particular, without taking into account the huge messiness in the world, and what we call in economics the counter-factual. What if the IMF hadn't come to the rescue, what if it hadn't done certain things, would the world have been different? And the fact is that the world is full of certainty. There's tremendous uncertainty, and we don't know, for example, if we had followed the Stiglitz prescription of basically having macro economic ease, and in particular letting the exchange rates go through the floor, and printing money, whether --

NANCY BIRDSALL: Waiting to privatize.

ROBERT E. LITAN: Waiting to privatize, waiting to, for example, open up your economies to liberalize trade. We don't know if we'd followed all these prescriptions that Joe was talking about that things would have been any better. There's just as good a reason to believe that they would have been worse. I guess that's, I think, why a lot of economists are uncomfortable that you can't express with certainty that these things would have happened had Joe followed -- or had the world followed him up on these prescriptions. That would be my major point.

CAROL GRAHAM: Can I have just one sentence. Another thing related to that is that one of his major prescriptions is, you have to let countries build institutions first, before you privatize, before you do these reforms. We really don't know how to build institutions, that's something where we don't have any recipes.

ROBERT E. LITAN: Okay. I think we've said enough on that.

Let's go to -- you've been waiting patiently. We're going to get you on the next pass, don't worry.

QUESTION: -- Although the Bank of Japan action is a new announcement, the non-performing loan issue has been going on for years, if not decades, I guess.

ROBERT E. LITAN: I guess the question for people who couldn't hear it, is there anything happening at these meetings that I guess will follow on to the Bank of Japan's recent efforts to clean up the non-performing loans and so forth. This is just a guess, you're right that people have been beating on Japan to do something about this for ten years. Japan, I'm sure their public attitude will be, look, we're trying, we're trying, and what else can the world do at this point, except say, at least give it a chance. I don't see it happening, that in the private rooms people are going to beat up Japan even further, given that they've already done something. I think there will be sort of a wait and see attitude. But, Japan doesn't have forever. If this thing doesn't work, don't worry, without the IMF meetings, or without the summits and so forth, there will be plenty of private communications, I'm sure, between the U.S. Treasury and the Japanese. You've still got to do something. And as Will pointed out, the one big difference between the way Japan has treated its problems over the last ten years and the United States is when we had our banking and real estate crisis the government finally gave up tons of money, and heads rolled, right, and people lost control of institutions, we closed them down, et cetera, and Will points out quite correctly that heads haven't rolled in Japan. The institutions that screwed up still are there. The people largely are still there, and they've still got the money. And I think what makes the Japanese people so angry about having government financing of this whole -- at least in the banking system, is there don't seem to be a lot of consequences. So I think that's one of the things that I think not only the world, but the Japanese people are going to be watching for.

NANCY BIRDSALL: I want to ask Bob a follow up question on your behalf. Will there be any push back from the Bush administration that the nature of the most recent decision, insofar as it represents a kind of intervention that's unusual from the central bank? I don't know how to express it, it is a -- it's not dissimilar from the government buying equities, it is not consistent with, say, what would be called liberal policy in Europe, and what the conservatives in this country would find comfortable.

ROBERT E. LITAN: Again, this is a guess. See, when we cleaned up our S&L and banking problems we didn't have the central bank to put money in, we had the U.S. Treasury do it. So here --

NANCY BIRDSALL: It was a fiscal --

ROBERT E. LITAN: It was a fiscal action, but it was actually approved by the Congress. In the Japanese case this is the central bank doing it, and doing it, as you point out, somewhat selectively. I'm not sure the administration at this point is going to get caught up in ideological orthodoxies. I think they're likely to say, let's give this a chance. If it doesn't work I'm sure they'll make this kind of push, as you pointed out. But, I don't think they're going to jump on Japan too badly at this point. That's just a guess.

NANCY BIRDSALL: I also wanted to add just a quick footnote to (inaudible) question. That's the great thing about being a member of the G7 instead of being Brazil. You look very carefully at that G7 statement, and then you tweak the language on the banks, but we've got some liabilities, too, and we're not going to want our language to get tweaked too much, and so there will be an accommodation at the end of the day. I would imagine the G7 will be very much around this issue, as they were around the U.S. fiscal outlook, as they were around the U.S. current account. Will we see all that in the G7 statement? I'd be surprised.

ROBERT E. LITAN: Okay. Now it's your turn.

FRANK KOLLER: Frank Koller from the Canadian Broadcasting Corporation. Dr. Williamson spoke about the dream ten years ago for the global economy, and the consensus that built up around it, which several of you have mentioned is now fractured, and frayed. I'm wondering to what extent these huge institutions that have brought us all here this week could embrace, both philosophically and obviously, more importantly, operationally, the much more modest goals that Dr. Easterly feels would really make a difference?

JOHN WILLIAMSON: Let me just say one thing, I mean, the comparative advantage of World Bank members, many of us have thought, was in dealing with governments, and if it all of a sudden starts dispenses grants to poor households, that seems to me it's really abandoned what ought to be a major part of its mission. So I don't think I'd want to go all the way with Bill. I have no objection at all to a part of bilateral aid being given in that way, but to withdraw the international institutions from dealing with governments I think would be a mistake.

In terms of strategy for trying to get back to the sort of world that we thought we were heading to, I don't think it's much the type of policies that I tried to codify in the Washington Consensus when I first wrote it, which is somewhat different to the version that has become popularized over the years. But, I don't see a lot that was fundamentally wrong with those lines of thought. I mean, there are lots of qualifications that one would want to make now, 13 years later, but what does seem to me very clear is that that was an incomplete agenda. Of course, a lot more things have become evident in the last few years, and there needs to be far more effort to make economies crisis free, to crisis proof economies than we thought was necessary in those days. And there's the whole issue of second generation or institutional reforms, which is incredibly important. I think Carol is right that we don't have ready-made blueprints. Then there's the whole question that Nancy has been writing about recently of income distribution, and there are a series of issues there that ought to be on the agenda, and clearly I didn't put on the agenda, because I was trying to delineate what I thought carried a consensus in Washington. And this was still the '80s, even though it was the end of the '80s and so it wasn't quite as outrageous as the beginning of the '80s, to think that one might want to worry about questions of income distribution. So one needs a much broader agenda.

Now, the sort of rejectionism that is embodied in the anti-globalization movement seems to me an absolute red herring. Yes, sure, there are one or two issues that they've helped highlight in the agenda, but I think wrong to say that they've been a major source of new ideas for the international debate. I see very little. I mean, they've dragged up the Tobin Tax, apart from that and debt relief what is there on the agenda of the anti-globalization movement? Some of it is back to the old socialist agenda, and some of it isn't, and it doesn't seem to me to amount to a bag of beans.

WILLIAM EASTERLY: Tell us what you really think, John. Well, I agree with John that the World Bank has invested a lot of effort in trying to influence governments, and it's shown convincingly that it's not very good at it. We have two decades of experience now of structural adjustment, and almost everyone seems to agree that it's been extremely disappointing in getting countries to change their behavior, or country governments to fundamentally reform themselves to do civil service reform, to improve governance, to actually deliver quality public services.

So, you know, let's think about the other part of the Bank that has been kind of neglected recently, which is the projects part of the Bank, which could be much more amenable. I certainly agree with John that it's not cost effective for the Bank to do real small scope projects. But the Bank could do larger projects and programs, like Michael's Progressa Program in Mexico, supporting a program like that, with careful ex poste evaluation of what is working, and what is not working, and that would be a way to move towards these real modest goals, to reinvent itself as a bank that helps some people some of the time.

ROBERT E. LITAN: Mike?

MICHAEL KREMER: As Bill pointed out, the Bank does have, aside from this Washington consensus, the macropolicies, the Bank does do projects, and increasingly those projects are in social services like education and health. The Bank is doing some work at the low level, at the grassroots level.

I think I would actually have a somewhat more -- I think Bill said that everybody agrees that the structural adjustments have been a failure. I don't agree. I think there --

WILLIAM EASTERLY: Everybody except you.

MICHAEL KREMER: Everybody except me. I think the picture is much more mixed than that. If countries don't want to reform, it's going to be very hard to get them to reform. But the picture is usually much more complicated. In many countries, there are some people who want to reform, there are some people who -- some policymakers who don't. And there may be opportunities for reform.

So just to take one example from a country with which I'm familiar, which is often seen as a great example of the failure of structural adjustment, which is Kenya, certainly there are people in Kenya that don't want to reform, but one of the things that came from the Washington consensus was to try and lower tariff barriers. And I've spent time living in rural areas in Kenya, you can directly see the impact at the very grassroots level, some of the positive impact. I lived there 15 years ago. People had to get around by foot, they would be carrying very heavy loads. I wondered why there weren't more bicycles. Well, the answer was, there was very heavy protection against bicycles. They were very expensive, they had to be imported with high tariffs. They had to be bought from very inefficient domestic producers. Now there are bicycles all over the place, which means people can use even these trucks to transport loads out to rural shops. The people are having bicycle taxi services, thousands of jobs have been created. Why? Because they got rid of the tariffs.

Some elements of the Washington consensus can be very important to the livelihoods of very poor people. And I think the Bank and the Fund have a -- as they did in the '80s in pushing that, it certainly wasn't everything, but somehow it's very important.

ROBERT E. LITAN: One final word, you've touched a raw nerve there.

LAEL BRAINARD: I certainly don't want to be a World Bank apologist, especially given how much more time Bill Easterly has spent there. But I would want to just make sure that we are a little bit more friendly to aid more generally. Look at the statistics, everybody always focuses on income, and the income divide. But it's very important to look at other areas where aid has made a big impact, and where the gap has been much more consistently addressed, education, literacy, on child survival, on infant mortality. If you look at any of those numbers, and the poorest economies have made a lot of progress relative to the richest economies, and it suggests that perhaps there are some areas where knowledge transfer is powerful, and may work better than other kinds of transfer we've tried. But it is certainly heartening enough that people who really want to address these issues should go back to the drawing board and keep trying to do so.

ROBERT E. LITAN: Okay. I think we're coming from this side. We've only got about ten more minutes. Up here.

ED ANDREWS: Hi. Ed Andrews from the New York Times. Amid all this talk about the fraying of the Washington consensus, what I'm wondering is how frayed the consensus are on our side of things, and in the wake of our retreats on trade, I don't know how you would characterize our standing vis-a-vis the multilateral institutions. That's really my question, how much are we behind this stuff at the moment? How much force is there in our own political system, or are we, ourselves, fatigued a bit, do we have the fatigue problem, are we worn out by this and defensive?

ROBERT E. LITAN: You want to tackle that, since you coined the term "Washington consensus," I'll let you go first.

JOHN WILLIAMSON: I just want to make one brief comment, that one of the points that I originally made when I coined this phrase was that Washington was better at preaching some of these policies to other countries than it was at practicing them itself. In those days, I was thinking of fiscal policy even more than trade policy, but I think I may have instanced trade policy as well. Now, of course, having said that, it doesn't help when the United States imposes steel tariffs, or increases agricultural subsidies, or something of that sort. So, of course, it is a problem when that sort of thing happens.

CAROL GRAHAM: Just one sentence, I also think you can't underestimate the effect of, for example, the corporate scandals, and the way that our stock market, the way that business has been managed here, what kind of effect that has in countries where there has been a lot of controversy. But, for example, the Social Security system has been fully privatized. Again, that certainly helps fray the consensus.

LAEL BRAINARD: Just the question you raised was a good one. The two things often get conflated. What happened in the '90s was not just that there was a global movement demanding global social justice, but also that the U.S. domestic consensus started badly fraying, and we see the Bush administration position really means to rebuild that in order to deliver on some of the promises that it wants to make, and because we are asking a lot of other nations in the international campaign against terrorism.

And just to review the record very briefly, on trade we have two very important initiatives that the Bush administration undertook very whole-heartedly, Doha Round and the Trade Promotion Authority. Those were successes. But what's important about those successes is there are agreements to negotiate, there are procedural agreements, procedural victories. On every concrete sectoral issue that has arisen, the Bush administration has actually walked in the other direction, and we can look across the board on that. There are good reasons for that politically, but it does leave the world questioning the commitment.

On the Millennium Challenge Account, the amount of money the Bush administration has put on the table is absolutely stunning. It is a huge step forward. It's a Nixon goes to China kind of move for a Republican administration to take on their own party on this issue, and there seems to be a lot of bipartisan support around it. But, again, there has been no money proposed for this current budget. These are all in out years, and in fact the money comes to fruition beyond the president's current term. So the reaction to the U.S. in Johannesburg, I think, was a reaction to the realities on the ground as opposed to the bigger picture promising developments which have not yet been seen in concrete deliverables.

ROBERT E. LITAN: I think that's enough on that. There's a gentleman way at the back. I think this will be our next to the last question.

QUESTION: (Off mike.)

ROBERT E. LITAN: Okay, the two questions, for people who couldn't hear it, what is going to be the outcome of the meetings this weekend, and, secondly, really what's going to be the outcome of the Doha Round now that the administration has Trade Promotion Authority? Why don't we separate those questions. First, this weekend, who wants to talk about that?

NANCY BIRDSALL: Well, as is the case always with the summits in the way that they're used to reframe the issue, the outcomes will be relatively modest in the short-run. But I think there are a couple of areas where we could look for concrete decisions, or at least the beginnings of concrete decisions. One is that on the trade issue, both the IMF and the World Bank staff are tabling papers which clarify high costs to different groups of developing countries associated with problems of market access, problems of the agricultural subsidies, and so on. So, I would guess that there might be some decision between now and the spring meetings for another round of discussion, now that the problem is clarified in a multilateral setting, what are the implications of that, what does it mean for the Doha Round. The meetings and those papers provide a mechanism for the developing countries to have somewhat more voice and pressure in a multilateral setting on the trade issue.

The second thing is that we understand there will be a call for a new paper to be done between now and the spring on the very long-term, but very deep question of improving representation of the developing countries in the IMF and the World Bank, either at the level of votes, or at the level of field representation, or in some other form.

Those are at least two issues. They're modest. They have to do with going from one step of discussion to another step of discussion. But, I think that from a medium-term point of view, these issues of trade and representation are heavily linked. It's only when the developing countries acquire more voice in a range of international institutions of global economic governance that we'll begin to see more effectively addressed a lot of the issues that were raised today. I don't think that there will be much pressure on making sure that the Millennium Challenge Account operates well in a multilateral setting. It ought to be on the agenda. I think we'll see absolutely business as usual on the HIPC debt issues. Another round of the same stuff, over optimistic projections, lack of money on the table for commitments that have already, in effect, been made. Lots of talk, but the donors having trouble figuring out how to do burden sharing.

So, modest progress on a couple of issues, but lots of business as usual on some of the other big issues.

ROBERT E. LITAN: I'll just add one more on trade, I want to put this charitably. I think the administration faces an uphill climb, to put it modestly, to get something substantive on a multilateral basis on the new multilateral agreement for all the reasons we've talked about. Very little domestic support for a movement on agricultural subsidies, on anti-dumping reform, on textiles, just to name three big ones. And so, if I had to lay money or had to bet, I would say this administration will keep talking about a multilateral trade deal, but will pursue bilateral trade deals, so that by the time the 2004 elections come around, they'll at least be able to say, we've had a few deals. And I'm not going to name specific countries, but there are a lot of countries that now want bilateral deals with the United States, and those are a lot easier to cut than doing something multilateral. If you want to see something there, you will have to probably wait until the next president or the next first term. That's my view.

Last question.

QUESTION: (Off mike.)

ROBERT E. LITAN: All right. And I think our concluding answer, Nancy knows it all, she's going to give it to us.

NANCY BIRDSALL: Well, it's a great issue. I think there are two things that I would say. One is, I hope that the people in the streets who are calling for better management of globalization will put accountability of the donors on the agenda. It's not just accountability of the World Bank, or just accountability of the U.S., but accountability of the donors as a group. The donors ought to have a PRSP. The Tanzanians ought to have resources to review the strategy of the donors in their country, and equally the Salvadorans, and equally the Nepalese, et cetera. So, there needs to be a call for mechanisms that make the donors just as accountable as the donors have been asking the developing countries to be. And there are lots of issues of accountability for coordination, for tied aid, in general, for a lot of policies that they recommend.

The second point that I would make is that on the Washington consensus and accountability of the institutions, a major step forward would be for the World Bank and the IMF to put equity more directly on their agenda. And if they are to have arrangements, understandings with countries in the context of large loans, those understandings ought to go to the heart of the incidents of the tax burden, the incidents of expenditures, who is gaining, who is losing, who's paying, and in cases like Argentina and Brazil, that might actually help the governments whose intentions are usually pretty sensible. It might give the good guys in those governments leverage to deal with interested parties, vested interest, insider privileges, rent seeking and so on, and to attack the fundamental problems that underlie the difficulties of fiscal responsibility, namely that the tax burden is unequally shared, and the benefits of expenditures are still not nearly as progressive as they ought to.

ROBERT E. LITAN: Okay. We ended on a constructive, positive note. I want to thank all of you for staying, and for listening to the panel. We want to thank the panel for their contributions.

Thanks.

(End of event.)