Melanie Joseph (MJ): All right, with apologies to those who’ve heard this etymology already. Last summer Alisa Solomon and I were talking about the idea of doing a number of these roundtables on the subject of money. Because most of us don’t really understand the vernacular of the economy, which seems to be what is ruling the way our civilization is evolving. So I’m thinking of this dialogue series as kind of popular teach-ins—The first one we did on the 21st was focused on the American economy—terms and critiques of the American economic terms. What we did was we started listing terms that we didn’t understand, Michael Zweig went through them and tried to explain them, and then Seth Ackerman critiqued them, because Seth works for FAIR, who critiques the media’s usage and representation of those terms.

This one focuses on globalization. I can’t stress this enough: feel free at any time, if you don’t understand something that’s being said, or if you want to ask for something to be defined, please just speak up – interrupt – interruptions are encouraged, this is not a “lecture course”. Also, I’d like to let you all know that the 3rd in this series will be on February 25th, and we already have a number of reservations so if you’re interested and you haven’t made your reservations yet, please E-mail us. That dialogue is called “Productive Areas of Intervention,” and it’s featuring two really interesting guests, one Naomi Klein, who wrote a wonderful book that just came out in paperback called No Logo, which I recommend highly, and the other guest is Kevin Danaher, who is one of the founders of Global Exchange, which is an organization whose energy was behind the IMF protests in Seattle and which continue to take place internationally. You’ll also notice that inside the program we’ve included some of the highlights of the last event—the last event has been transcribed entirely by the beloved Anne Erbe, and is available for [applause]...Is it like 30-something pages?

Anne Erbe: It’s around 40 pages...

MJ: We didn’t print it out, but if anyone would like it, just E-mail us and we will happily send it to you. If we don’t have you on the mailing list, please make sure you sign it. Thank you all so much for coming and I’d like to turn the table over to our guests [applause].

Alisa Solomon (AS): Okay, I’m going to stand up and feel professorial or something. I’m Alisa Solomon, and this is Marilyn Niemark, you met us last time if you were here, you met Seth Ackerman from FAIR last time, and today we’re also joined by Robert Naiman from the center for economic and policy research in Washington, and there’s a full bio about him, or at least a more complete than what I’m saying bio about him in your programs, so please refer to that.

Marilyn Niemark (MN): Can I just say something? You don’t know who we have here [laughter], because this guy is responsible for what I think Doug Henwood, you said, called a “world historical moment”?

Robert Naiman (RN): World historical act...
MN: A world historical act, which is described in your program as a “culinary contra... in Bangkok. So, could you just tell everyone what that means and what you did?

RN: I think we should let Alisa say...

AS: No [laughter]

MN: Alright.

RN: When...as you like, as you like...

AS: Answer the question! [laughter]

RN: So, the reference is to an incident in February of 2000...

AS: A little bit of political theatre we might call it...

RN: Um, there was a meeting of an organization called the United Nations Conference on Trade and Development in Bangkok, Thailand...

AS: The what?

RN: United Nations Conference on Trade and Development, also known as UNCTAD. Very few people in the United States have heard of it, in part because the UN in general is marginalized in U.S. political discourse and particularly the UNCTAD has been marginalized by the World Trade Organization. UNCTAD used to be a main arena where international discussions about trade took place, and was also in the opinion of many, especially many in the third world, an arena where Third World interests could be represented or could get a hearing, unlike what many people feel the WTO is, where those interests tend to be marginalized. So, this meeting in February of 2000 of the UNCTAD was seen by many non-government organizations in the Third World as potentially a watershed coming just a few months after Seattle, and a lot of NGOs gathered in Bangkok for the UNCTAD. Ironically, the keynote speaker of the UNCTAD was Michel Kamdessous, who is the outgoing managing director or head of the International Monetary Fund. Kamdessous is an extremely controversial figure all over the world, particularly in Asia, and also including Thailand, which had undergone an economic austerity program designed by the IMF in the wake of the Asian financial crisis. So many people found this event to be particularly bitter. Actually, Kamdessous is valedictory apparent, he’s head of the IMF, sort of the day before he retired, this sort of swan song, bye-bye, and many people found it particularly bitter that this would be in Bangkok at the UNCTAD. So some people approached me—I was there at these meetings—and asked me if I would participate in a conspiracy to pie Kamdessous around the time of his talk at the UNCTAD, and I did, and that’s what this refers to in the program [laughter]. It didn’t get too much press coverage here, but it was big news everywhere else.

Audience: What flavor pie was it?
RN: It was actually sort of a cake with a fruit topping... [laughter]

AS: Purchased in a local bakery?

RN: In a 7-11 actually... [laughter]

AS: A 7-11 in Bangkok...We can start there! [laughter]

RN: That’s like a Tom Friedman column. [laughter]

AS: Okay, just in hearing this anecdote, we’ve already heard some of the terms that we hope to get a today, to try to understand the WTO, the World Trade Organization; the IMF, the International Monetary Fund; the Asian financial crisis; NGOs, stands for non-government organizations, but you know, what are they exactly and how do they figure into all of this? And there’s some other terms that of course come into play when we talk about globalization, and how we thought we’d proceed today, is first just list some more of these terms, ask our guests to start out then by just giving us a brief definition of what globalization is, and then just to have a conversation around a particular issue that most of us probably have seen raised in the press, for example the issue over AIDS drugs being available in Africa, and now it’s New Zealand, and elsewhere, and how some of these governing bodies and the forces of globalization have created a crisis around that. By talking about a particular case, we can understand some of the general pressures of globalization and the roles of some of these big institutions and then we can look at some more of these case examples as well. So, Robert and Seth will chime in and talk about these things and in addition to sort of defining them, we’re also going to have some focus on how are they represented to us generally in the media—how are they typically framed and what are we missing? So we’re going to try to do all that together, but I thought let’s start out by just putting some more of these terms up there that we’ll hope to get to through the course of the conversation, and that will be Marilyn’s and my job to interrupt at various points and say, wait a minute...what was the Asian financial crisis? and so on. So, we’re going to start with globalization. So we’ve already got WTO, IMF, I think World Bank needs to go up here right? Others, just when you talk about or think about globalization, other terms or organizations or acronyms that come to mind?

Audience: The Fed

AS: The Fed? Okay, we talked about the Fed last time, but we could talk about that again, um...

Audience: NAFTA?

AS: NAFTA...GATT I suppose is related to that.

Audience: FTAA?

AS: Yeah.
Audience: EMU

AS: E-M-U? Okay. So we'll try to...as others come up, just feel free to shout them out, but we'll try to make sure that in the course of our discussion today, we come to understand what some of these things are. But let’s just start with a raw definition of globalization and how does it differ from just international trade that’s been with us for centuries?

RN: So, um, I assume that everyone here has some relationship to theatre, and therefore, I’m going to assume that you all have a heightened sensitivity to language and its use and abuse. And therefore, I hope that you share with me a little bit of an allergy to the idea of defining the term “globalization,” right? Just put a little question mark over it. Because of course, there is no such thing, right? There isn’t a thing that everyone would agree: this is globalization. But a first approximation would be to give kind of an economist’s definition, so that’s relatively neutral. After all, we define things tendentiously, like lawyers—our side has a definition, the other side has a definition. So, I’ll try to start off neutral, somewhat, a politically neutral definition, an economist’s definition, which is an increasing share of international trade, as a share of national economy, so the degree to which, let’s say, goods consumed in the United States are produced elsewhere, or goods produced in the United States are consumed elsewhere. This would be one notion of globalization, but the notion that this has been increasing—the international penetration of the U.S. and other economies has been increasing.

A slightly more politically charged definition is to say, yes that, but also changes in government policy, or changes in policies of government and government-related institutions, designed to facilitate this process. So, NAFTA, for example, which was mentioned; policies of the International Monetary Fund; the World Bank; World Trade Organization, the WTO has only existed for the last five years, um NAFTA has only existed since the early 1990s—there have been shifts in government policies designed to facilitate this economic integration, this penetration of national economies by the international economy. And this is important, because you’ll find that analysts that are, let’s say broadly, poorly speaking, sympathetic to the status quo, will tend to emphasize technological causes of change in order, I would argue, somewhat tendentiously, to give the impression that this is an inexorable, inevitable, natural, organic process, which A) is desirable, but even if it weren’t desirable, even if you don’t like it, it doesn’t matter, because there’s absolutely nothing you can do about it; it’s like gravity, and therefore, you might as well just get used to it. That’s just sort of like the Thomas Friedman view of the world. And a corresponding de-emphasis of actual changes in government policy designed to make these economic shifts take place.

MN: Can I ask you to push it a little further, because last week we talked a lot about money, and in your definition, which is about the inner-penetration of economies in terms of products and services flowing, you didn’t explicitly mention money, and I wonder if you could talk a little bit about, you know, who’s really moving here? I mean, we’ve got product flows, but we also have money flows, don’t we? And what might one say about that?

RN: Well there’s been a corresponding shift in the degree; there’s been a shift in the speed of international financial flows; there has been a shift in the composition of international financial flows.
AS: What is an international financial flow?

RN: Well, it’s like if George Doroff, sitting in his office in New York, decides that he thinks some Asian currency is going to depreciate in value, and so in some futures market, he purchases a contract based on the supposition that the currency’s going to fall, that would be one element.

MN: But why would a currency increase or decrease in value? What does that mean, I guess, to say that?

RN: Well, so what it means is its value relative to other currencies—it can’t mean anything else. And why it might happen is a more complicated question. It’s partly psychological; it has to do with the beliefs of traders about what will happen; it partly has to do with reality and beliefs about the country’s trade balance—it’s a balance between imports and exports. If a country has a huge trade deficit, probably a country other than the United States, which is a bit of a special case, and if, for example, in addition it’s low in its so-called reserves, foreign currency reserves, hard currency reserves. So, for example, Thailand at the outset of the Asian financial crisis: if foreign investors suddenly that hard currency is running out of the country, that the country’s reserves are falling, the foreign investors may start to question whether Thailand will be able to pay all its debts.

MN: Because they’re required to pay the debts in what you described as hard currency, which is money like the dollar, and I guess German marks, and strong economies currencies?

RN: Um right, of course it depends on...and with any such loan, one of the terms of the loan is what currency it will be repaid in. So, one of the main causes, actually, of the Asian financial crisis is that there was a tremendous run-up, a tremendous increase in short-term foreign currency borrowing. So Thai banks, Thai companies were borrowing money from U.S. banks, from Western European banks, and so this gap developed between what these entities, what the economic enterprises of these countries owed, and what they could pay, because they weren’t necessarily earning hard currency. So as long as the exchange rates remained fixed, the rate at which say the Thai bought trades for dollars, that wasn’t necessarily the problem, but once the supposition developed in financial markets that that might be unstable, it became ripe for a speculative trap of in fact, a self-fulfilling prophecy of people believing that it was going to fall, and therefore acting in a way that triggered the fall.

AS: Can we just back up for a second? If I understand this correctly, Marilyn’s question basically said that part of globalization is the increase also in currencies being created as commodities or investments in currencies, so that’s correct, right?

RN: That’s correct.

AS: So if somebody like George Soros got rich just by guessing, making good guesses about what currency is going to increase in value and trading...

Audience: Meaning currencies were speculated upon like stocks...
RN: Yeah

AS: Yes, exactly.

Seth Ackerman (SA): When you’re trying to define all these aspects of what globalization means, I think that Robert made a very good point when he said that the word is almost non-definable in an objective way, because it’s an extremely ideological word, and you have to peal away layers and layers of mythology about what it is, or what people want it to be, or how it’s portrayed. And you see if you read the business press and you read The New York Times, you see a tremendous amount of enthusiasm for the idea of globalization on the part of Wall Street people and political elites, and you know, high-level journalists like Thomas Friedman. But the thing that they’re excited about is not necessarily what globalization sounds like. For example, I think that one could pretty confidently say that the world economy could get more integrated and countries could interact with each other more economically every year and that that international trade and financial flows could increase, especially the trade flows, could increase every year, and yet the people who are so enthusiastic about globalization might not be very excited about it, depending on how it was shaped and how it was formed, you know? And so I think that the aspect of globalization that’s so controversial and that makes those people so enthusiastic about it—and this is where globalization the term doesn’t really mean what it sounds like it means—is because it’s been accompanied over the last twenty years as this era of globalization has come upon us, not just by more integration between countries, but also by, and this is the main thing, by a tremendous movement towards free-market, deregulatory, anti-labor, and pro-business policies in the domestic countries involved, not just internationally but in the domestic countries involved. And that’s the thing that’s really so exciting to them is that globalization increases pressure for, in their view, and is accompanied by the destruction of unions and the elimination of labor laws and labor regulations and in most countries is accompanied by a huge upward redistribution of wealth and an increase in profits. And so that’s why I think that one could easily see the world economy getting more and more integrated without those things, without those kind of anti-labor, anti-worker, anti-environment policies being in place. But if that were to happen, I have a feeling that it would no longer be called globalization, and there would no longer be so much excitement about it. Suddenly it would lose all its appeal and all of its charm, and that’s why when you ask what globalization is, more than almost any other term, you have to ask, according to what ideological prism are you trying to define the word? So I think emphasizing not just the kind of face-value definition of it, which is more international integration, but really the undercurrent of it is, in whose interests and what kinds of policies are pursuant according to this globalization plan?

AS: Well let’s start looking at that specifically by taking our first case example of what’s happened with AIDS drugs and why is it so hard for people who can’t afford the exorbitant prices that are charged here in the U.S. to produce them less expensively and make them available?

RN: So this is a good segue, because this issue of access to AIDS drugs is one of the issues that has brought protests around these institutions, and I’m sure many of you are aware, for example, that Act-Up Philadelphia led protests at former Vice President Gore’s campaign speeches to bring attention to
the U.S. government’s policy of bullying developing countries which are trying to make AIDS drugs affordable, particularly South Africa was the one around which the most friction was then taking place. And the interesting thing is if you look at press coverage of protests around this stuff, you often see the phrase “anti-globalization protesters,” or “people protesting against globalization.” Compare that to the relatively neutral definition of globalization I gave you at the beginning of around increased integration, and you find a disconnect, right? Because there’s no...I suspect they won’t be able to find any newspaper article where a protester was quoted as saying, like, why are you here? Because we’re against increased integration between economies or against increasing the share of international trade as a share of the US economy. [laughter] Right? Instead you have people by and large, I mean some people are protesting against capitalism, but by and large what you have is people protesting around specific issues, right? Gutting of environmental laws, access to AIDS drugs, canceling Third World debt, so on and so forth.

So here’s one such example. Let’s start with the South African case. Some of you are no doubt aware of the Brazil case, because it was covered in the press in the last few weeks. Starting several years ago, the South African government had a policy of trying to make AIDS and other essential, life-saving medicines affordable, and affordable means in this context making them available at a different price than the Western, certainly than the price that you would purchase them for in the United States. Many of you are probably aware that more generally, the price of patented pharmaceutical drugs, a problem not just in the developing world, right? I mean it was even an issue in the last presidential campaign, it was an issue in Congress—Medicare coverage of pharmaceuticals—most of the discussion here has been on the coverage side. There’s been relatively little public discussion on the price side, like why do these things cost so much and what are we going to do about it? Regardless of how it’s paid for, you know, there’s an overall stem problem of the magnitude of the price. And in economic terms, one of the reasons why, a key reason why these drugs cost so much is because the companies that sell them have monopolies, have legally protected monopolies, indeed legally created monopolies.

AS: Okay, how do they have legally created monopolies?

RN: So, they have legally created monopolies, because they have patents and copyrights.

Audience: But don’t they also say that since they did so much research and development that they have some right try to “make their investment back”?

RN: Yes, they do say that. But first let’s make sure that everybody, does everybody understand the basic idea of a patent and a monopoly? Like how a patent is in fact a government created monopoly? So the idea of the patent, if you go back in the history, is that in order to foster and reward innovation, the government should grant a monopoly to somebody who makes a useful invention, and that’s why we have a patent office. If you make a useful invention, you submit an application to the patent office, and the patent office say, yes you made a useful invention: we document it here with your patent application, and now you have an exclusive right to use this invention for a certain period of time, right? That is supposed to encourage people to make these innovations and not just to make the innovation but to share the information, right? Because after the patent expires, now the thing is documented and it’s in the public domain, and everyone can use it.
Audience: And how long does a patent usually last?

RN: Well, now it’s 20 years actually. It’s been recently increased. So the first thing to understand, whether we’re for or against it, is that this has nothing to do with free markets, right? This is not Econ 101: free markets, everybody competes, right? This is government granting a company a monopoly. Might be good, might be bad, but it’s not a free market.

In the specific case of pharmaceuticals, the question was raised, okay, well these companies have researched and produced these drugs, it’s very expensive, they have to be able to make a profit: the patent and the copyright enables them to do that. Well, as it turns out, in quite a few cases these drugs were actually not researched by companies that own the patents and copyrights. Very often they were researched by tax dollars, like for example through the National Institute of Health, which does a lot of the basic research that produces these drugs, and indeed there’s a government program for delivering drugs to market by first developing the drug, and then they do a request for proposals and say, we’ve got this nifty drug, who wants to market it? And the different companies go, me, me, me! And they give them the drug, and then they go out and have an exclusive marketing agreement.

It’s also true in the last several years across a broad range of issues, not just pharmaceuticals, that the patent office has got more and more liberal about granting patents, so that you have even in cases where a company’s not able to patent something, like maybe the basic knowledge is in the public domain, because it was produced by the government, but someone will do something like say, okay well, we have a process for administering drug X, and the process is you know, tell the patent to take drug X three times a day and blah, blah, blah. I’m serious. They actually do this. And then they get a patent on that process, so anybody can use the drug, but you can’t administer it in that way.

So there’s a question that should be asked about the overall regime, right? This is not a free market mechanism, but however, there might still be an argument for it right? There’s this fostering innovation argument. But then we have to ask, okay, is this the best way to foster this innovation, or is the public interest being served? Because that’s what this system is set up to do, to serve the public interest.

In the particular case of life-saving medicines, of course, the question is much more extreme, because we’re not talking about Hollywood movies or Madonna CDs or something where you can say, well, people don’t need these things, so they have to pay a lot for them, no big deal. It’s estimated that there are something like 25 million people in sub-Saharan Africa alone who are HIV positive. The number probably goes up to something like 34 million worldwide, and that number is definitely going to dramatically increase with projections being that several years from now, there’ll actually be more HIV positive people in India than in sub-Saharan Africa. So this problem is huge and growing, and millions of people, like 17 million people have already died in sub-Saharan Africa from AIDS. The patent-protected price of the triple cocktail anti-viral therapy in the United States is like 10 to 12 thousand dollars a year. Brazil reports that they think that they can do it for $700 a year. And some of the AIDS advocacy groups think that one you’ve developed a market with intelligent generic purchasing, you can do it for $300. Now just those numbers right there mean there’s a tremendous…millions of people’s lives could hang in the balance. Because at $10,000 a year, it’s clearly totally impossible for people in the poorest countries in the world to get AIDS treatment, because
you’re talking about countries where the average income in the country can be like, several hundred dollars per year. There’s no way they can afford $10,000. But at $300, it starts to become plausible.

So this is what the big fight is about, right? Obviously it has real consequences. There is a provision in the World Trade Organization that addresses this issue of so-called intellectual property. The time that the WTO was created in 1994, the pharmaceutical industry and other industries in the U.S. and other Western European countries that had a stake in a strong intellectual property regime, insisted that the WTO have an agreement saying that countries would enforce the U.S. standard—it was actually even more than the U.S. standard: prior to that it was 17 years, it went up to 20. But basically it enforced the U.S./Western European standard of intellectual property, so that a country that didn’t do that could be the target of sanctions, of punishment under the rules of the WTO. And this agreement that they created was called the TRAIPs agreement: trade-related aspects of intellectual property. Even that name is a little bit tendentious, because it stuck on “trade-related” to kind of cover up the fact that they were sneaking in this thing that had nothing to do with free trade. This is trade-related aspects of intellectual property.

AS: So it’s not trade-related, because the idea is that folks in South Africa and Brazil or wherever, would manufacture their own drugs—there’s no trading of anything.

SA: It doesn’t necessarily have to involve trade whatsoever. But it was inserted, and it’s constantly being inserted into agreements that are called free trade agreements.

RN: Right. So, for example, there’s an intellectual property-working group in the free trade agreement of the Americas that somebody mentioned and we can come back to. So let me just sort of draw this story to a close.

Audience: I’m really curious as to what...I mean it’s clear that based on what you’re saying that the WTO really benefits the large, global...the U.S., Germany, the UK—the big Western countries. They have the most at stake here and they seem to be the controlling...What happens to a country like Brazil? I mean the U.S., I assume they export stuff to us and there are some financial ramifications if they were to not agree to the terms, you know, to go ahead and produce these drugs anyway. But exactly how bad would it be? I mean, what do these smaller countries really get?

RN: So, I think there are two components to your question. One is sort of like, what is the threat? What’s the threat on Brazil? The threat on Brazil is that, and the U.S. has said...well for those who didn’t see the article, Brazil has announced that it’s set a deadline of June—this is the most recent flare-up of the conflict, Brazil has said, okay, there’s two drugs that we want to make available in Brazil, and therefore the price of these drugs has to come down. It involves a U.S. company and a Swiss company. And Brazil has set a deadline for these companies to bring down the price, and that deadline is June. Brazil said, the price of these drugs is going to come down by June or else we’re going to tell a Brazilian company to manufacture these drugs. And the U.S. responded by saying, we’re taking you to the WTO; we’re going to file a complaint against you in the World Trade Organization for violating the intellectual property of these companies. So the narrow answer is what Brazil faces is a possible judgment in the WTO against Brazil for this policy.
Now why would Brazil agree to be in the WTO in the first place is the second question [laughter].

Audience: What’s the ramification of the judgment?

RN: What’s the ramification of the judgment would be if the WTO held in favor of the U.S., it could authorize trade sanctions against Brazil, so the WTO could assess what the economic damage to U.S. companies was, and authorize the U.S. to impose trade sanctions against Brazil to that amount, so we could then ban that many dollars of Brazilian beef.

[general talking]

Audience: That means absolutely nothing, because they just had...Brazil and Canada were fighting about some things like that, and they went to the WTO, and Canada won, and nothing happened. There’s nothing that’s happening when they go through the WTO and they lose a case. They’re just...they’re still fighting it, and Canada had to cut their prices; there was this trade deal that was happening—I can’t remember where it was—but Brazil was undercutting and giving subsidy money to the Brazilian company, and Canada went to the WTO, they won, and nothing happened.

SA: Well, sanctions that are ordered by the dispute-settlement mechanism of the WTO take place all the time. We just saw—was it European cheeses, Roquefort and several other products? The U.S. was authorized to impose sanctions on those products, and we did. I don’t know about that specific case, but it’s certainly true that when the WTO authorizes sanctions to be imposed, they generally do or can be imposed, and they do serve as a threat to countries that are thinking about...

MN: But what you example does illustrate however is that this is essentially still a political process. So it’s one thing for the U.S. to be able to impose sanctions, say, on cheese from Europe. It’s two giants battling each other and it happens. But for Canada to impose sanctions on Brazil would have political ramifications, both within Canada, and for, you know, the government. How are the supporters of a relatively liberal government going to react to the government imposing sanctions on a poor country like Brazil and so on? So what it illustrates, in fact, is that even within this regime of sanctions, it’s still a political process where countries have to take account of the response of their populations and other populations to what they do.

AS: Maybe this is a good moment to back up and to talk about the WTO itself.

Audience: Its composition and so on.

AS: Yeah. It’s relatively new. If you’ve never heard of it and you’d only been listening to this conversation, what you’d understand is that it’s an international body that functions like a court to deal with disputes among different countries over trade policies, right? And if there’s been this level of international trade for so long, why did it take ‘till 1994 for such a thing to be established, and who’s in charge, what are its constituent parts, who makes the actual decisions, and so forth. What is this body?

Audience: And can anybody join, or do you have to be invited to join?
Audience: And why would you want to join?

AS: Right.

RN: So the WTO was created, came into existence in 1994. It had a predecessor; its predecessor was called the General Agreement on Tariffs and Trade. The GATT was created after the Second World War, and so the WTO grew out of the GATT. It was actually a round of negotiations of the GATT called Uruguay Round, and it’s that that round of negotiations that created the WTO.

Audience: Who proposed it?

RN: The U.S. was the main pusher of the WTO [laughter], but the Western European countries were also very active. You know, if I could just digress on this point, you know that the role of the U.S. in this system is sort of to play the “heavy”—it’s like the chief cop, right? So sometimes there’s friction between Western Europe and the U.S., and it looks like Western Europe’s going to stand up, and then they never do? Well that’s because the U.S. is the chief cop. A few months ago, I had the opportunity to meet this guy from Friends of the Earth, no Corporate Watch in the UK—he was actually from Sweden—and he had interviewed the guy who was the lead negotiator in the TRAIPs, in the creation of the TRAIPs. So this guy from Sweden was the lead negotiator and he got this guy to admit, you know the U.S. is not the only country with big multi-national pharmaceutical companies, right? So he got this guy to admit that the EU and the U.S. sort of had this game going into the TRAIPs, like this good cop/bad cop thing, and the U.S. was the bad cop. And so the European countries were all saying to the developing countries, it’s a terrible thing that the U.S. is doing, but really, what can we do? And ha, ha, ha, you know? They wanted the same provisions for their multi-national corporations. So, it’s important to understand that there is a condominium of elite interests, not just in the United States, pushing these things.

But the key difference—there are a lot of differences between the WTO and the GATT. The WTO incorporated everything that was already in the GATT, but was a much stronger regime and it went further in several areas. And one of the key areas was this issue of the settlement of disputes. Just as the situation that the gentleman was describing between Canada and Brazil—that kind of story was a very familiar story from the point of view of many corporations of the GATT, mainly the GATT also had rules and disputes came up where somebody said that the rules had been broken, and there was this dispute mechanism that was supposed to resolve them, but it did not have very sharp teeth, there wasn’t a mechanism that actually, really required a country to comply if it really didn’t want to. It could still somewhat resist because GATT decisions required consensus. There was a lot of political pressure on countries to comply, and they often would comply, but at the end of the day, if they really didn’t want to comply, they didn’t have to. So the corporations wanted a regime where you could really coerce the countries to comply, and that was part of the reason they wanted the WTO, and the WTO regime, when a dispute panel makes its decision, it requires a consensus to block it. That would include the country that brought the complaint, so that’s not very likely. And it has been alluded to, it has this provision that if a country refuses to comply, then the WTO can authorize trade sanctions, which means that the victor country can punish the exports of the second country.
SA: But the overall idea of the whole thing is to make sure that that only happens when it’s authorized by the central WTO. The whole idea is that you have these trade agreements, but if one country feels like things are unfair, and they want to raise their tariffs against another country, and then the other country retaliates by raising tariffs, that would cause a trade war, and the whole idea of the WTO is to try to prevent that from happening by having, you know, all these agreements, and if somebody thought that the agreement was being violated by one of their trading partners, instead of just unilaterally imposing sanctions and causing a trade war, they’d go to the WTO and a panel of judges would arbitrate, and they’d have this dispute settlement mechanism and then if it was found that they were in the right, and this other country was violating its agreements, the WTO would authorize them to take sanctions and to take action. But that was the overall idea of the WTO.

AS: Okay so quick questions like who are the panel, you know, who are these panels of judges, and who can bring something to the WTO? Does it have to be a government?

RN: Has to be a government...that’s correct.

AS: Does the U.S. go on behalf of corporations?

SA: Yeah, and it always does...[laughter]

AS: Okay, so who’s the panel?

Audience: Um, there’s a general tone of criticism of the current international trade agreements and the way it works and also patents and copyrights and the like. What’s the alternative? That’s the question I have. In the case of pharmaceuticals, they’re not only expensive to develop, but you also have a huge liability. American Home Products just got hit by something like 200 million dollars in money they have to pay out, because one of their drugs hurt people. So it’s easy to say, hey, these guys got it all wrong, there’s gotta be a simpler way...but other countries manufacture these drugs at a fraction of the cost and give it out to people who need it. But there’d be no innovation then. No one would come up with these drugs. What’s the alternative then?

Audience: I don’t think that’s...I mean there’s this guy who’s been working at this pharmaceutical company in India where he’s been working with Doctors Without Borders to start sending out drugs, and he’s sort of taking the first financial hit, selling these drugs for less than he can make them for, because he really feels, like, it’ll bring competition back, actually...

Audience: But you can only sell things for less than you make them for a very short time...

Audience: No, no, no, but what he’s saying is that like, after a certain point, bringing the price down, it’s actually...

SA: Well that’s a good question, and it’s definitely something you have to consider. If you take the extreme case—the extreme, extreme case of this quandary, of this dilemma is the case that we have right now of AIDS in Africa or AIDS in India, or AIDS in Brazil, where you literally have a plague that is in
the middle of just wiping out huge populations. What did you say, 25 million? This is here not a question of should Madonna’s CD really cost $15 in the store, if it only cost $2 to produce? That’s not the question. The question is whether entire segments of societies are going to be wiped out by a disease that’s going on right now. And that’s why when the WTO is negotiating, when the TRAIPs, when the first intellectual property agreements were negotiated in the WTO, and they wanted to enforce these intellectual property agreements, the developing countries said, wait a minute, what happens if we have a national emergency? Remember this is 5 or 6 years ago, 7 years ago when this was being negotiated, and AIDS was not quite at the level of disaster that it is now, but they anticipated, they said, what happens if we have an emergency where we have a serious health emergency, and we need to manufacture drugs cheaply and get them to people quickly? And so, because those developing countries, those poor countries raised a fuss about this, finally the negotiators from the Western countries gave in and said, okay, we’ll have this exception, and we’ll write that into the rules. Well, I think that right now we have an exception, you know? We have an issue evoked. Now I think it’s fair to say—and this is an empirical question, maybe it’s true, maybe it’s false, I think it’s true—that if African countries, say South Africa, or say India or Brazil, if they have an AIDS emergency—and these are countries for the most part, especially in sub-Saharan Africa where as we said, per-capita income is often $250, $350—if those countries set up generic pharmaceutical companies to manufacture generic versions of these drugs that are being made by American or European companies, and they sell these cheap, generic drugs to their people, I don’t think that Merc is going to go out of business [applause]. Merc’s not going to go out of business any time soon. And again, if Merc did go out of business and suddenly couldn’t produce any more drugs and we didn’t have any more AIDS drugs—that would be a great problem, I mean I’m not saying that it wouldn’t...

Audience: Seth, I have a question, because one of the things that...there was a big article in the Times a couple of weekends ago, in the mag, and one of the things that occurred to me that I don’t even remember if the article raised was that, well if these people can manufacture these drugs for $300 a year, why can’t we buy it from them? Which is a whole other...

MN: Well that raises the question that the gentleman in the back there was raising, which is, so long as we have an economy which is essentially capitalistic, it’s absolutely correct that if you invest money in something, and you take both the risk of research that may fail and the risk of producing a drug which despite all the tests supposedly required for it to be put on the market, may cause harm and exposure to liability—if you take that risk you’re entitled to a return; you’re entitled to a profit. But the question is, two questions: one is how big a profit is enough, right? If they made half the profit they’re making would it still be enough for them to have done that research? Probably. And the second is who’s really paying for all that research? Because in reality a lot of the scientific research that takes place is government subsidized. And so a lot of the investment that they’re claiming they have a right to recover in fact is investment by you and me through our government, which is subsidizing that research.

Audience: So are you saying that their profits should be regulated like a utility?

MN: I’m not—you know, I don’t know the answer to that, you know, and I wouldn’t hazard a guess.
RN: I just want to back up. There’s a fundamental misunderstanding here, and I think it’s really important to clear it up. I disagree with what you said about in a capitalist system, blah, blah, blah. Because this is what the pharmaceutical companies want people to think. This is not capitalism. This is not dictated by capitalism. Whether you’re for or against capitalism, there’s nothing in Adam Smith that says anything about, you know, you should have patents and copyrights. This is a government intervention; it’s not a free market. We’re not talking about a free market here. It’s a government intervention. So it’s a question of what kind of government intervention do we want to have and in whose interest, on whose behalf, what are going to be the terms of the intervention. Of course, and this is a big pattern we have in the United States that people love massive government intervention as long as it’s lining their pocket, right? Your government intervention is welfare; mine is the free market, the wonderful workings of the free market—that’s the one that’s lining my pocket. And the pharmaceutical companies here are doing very, very well off the current system, but we shouldn’t let them for a second get away with saying that this is the workings of a free market. Doesn’t mean that there’s not a case to be made for the status quo. There is an intellectual case—that’s the incentive case. But it’s not a free market case. That’s very important.

Audience: What would be those policies and interventions, in your opinions, that would be in the public interest?

RN: One thing I think is that there should clearly, as Seth was saying, as is codified in the WTO, there clearly has to be an exception case that corresponds to treatments that are lifesaving. First to say, Viagra and things that are non-essential, and as Seth alluded to, the world market share of sub-Saharan Africa in the pharmaceutical industry is, like .01 percent. There’s just no...these companies are not going to take a hit. The problem is political, and if you read these articles that are mentioned, it’s clear that the pharmaceutical companies are not worried about losing market share in Zambia. They’re worried about people coming to understand how much it really costs to produce these drugs. Because that could undermine their profits in the United States. I don’t think that this is an argument against proceeding; I mean I think we should have an honest, straight-forward discussion, and yes, it’s true that if people in the United States understood what was going on, they might not like the status quo in the U.S. on these issues. But I think the first order of business is to deal with the issue in the poorest countries, where it’s a matter of life and death.

Audience: But how do we go about choosing, you know, which things should be targeted and which shouldn’t? There was a great article in the paper the other day about the sleeping drug sickness. It’s killing hundreds of thousands, millions of people in sub-Saharan Africa. There’s a pill, it’s available, and suddenly it’s only going to start being produced at a cost that’s viable, because they discovered it removes women’s facial hair. So obviously, there was no incentive on the part of these companies to produce an anti-sleeping sickness, because it doesn’t get any press, it doesn’t get any attention, and it’s certainly not a problem that’s being faced by any of the Western world. So why choose one cause or disease or emergency over another? How do you play that out?

SA: I think that you can pretty much summarize this whole issue with two points. First of all, there’s an immediate problem, and then there’s a long term thinking about how to restructure our whole system of making drugs, you know, making medicines. The immediate problem is that we have this incredible plague in Africa and in large parts of the developing world that if it’s not addressed with drugs, the
excess number of people who are going to die is going to be enormous. And that’s an emergency, and then you can’t sit around and debate about what our long-term drug policy is going to be while this emergency is going on—it’s an emergency you deal with it now. And then once it’s done, then you can have an intellectual, abstract discussion about, well, who should make the drugs and who should fund the research—then you can have that discussion.

So point number two is that discussion: what is the best system to...I would argue—and there’s a hundred answers that could be had and we could have a whole session discussing just this question—but I was argue that as Robert says, many of the drugs, and documented, specific examples have been reported, there was a great article in the *American Prospect* by a guy named Meryl Hoosner, who investigated this whole question that many of the drugs in question, where the drug companies have patents for on it and are charging high prices, because they say it’s their reward for their enormous R & D expenditures, those drugs were actually developed, or at least the basic research that led to the development of the drugs, was done by the National Institute of Medicine, done by public universities using public funds. The free market at work, right? These are huge subsidies that the government is pouring into research, to say let’s do basic research to find out if there’s a molecule that can be used in a drug to cure AIDS, or to help AIDS. And then once that publicly financed research bears fruit, it’s handed over to a corporation so that they can make a profit off of it. The tax-payers who finance the research, or the public who finance the research, they get nothing. They get nothing; they get the right to purchase that drug at a massively inflated price [laughter]. The companies involved get a huge profit.

Now I would argue that if you wanted to have a debate about what the best abstract idea is for a system of making drugs, it would be to massively increase the funding for the national institutes of medicine and publicly financed research, and then once that research bore fruit, instead of handing it over to a drug company to put a patent on it and charge a hundred times the manufacturing price, you have a government-licensed company making it at cost. That’s one idea.

[general talking].

Audience: We’re talking about a socialist or a communist system. I don’t remember any great medical breakthroughs coming out of the Soviet Union or out of Cuba. At the same time that you’re saying that, Merc pays a lot in taxes, they employ a lot of people, those people pay taxes—they fund the research that the government is doing. You’re forgetting the key part of the puzzle.

[general talking]

Audience: Without income coming into the government, they can’t fund anything! The government is not in business to make money.

SA: That’s true, that’s a good point. You could, I guess, calculate the percentage of the taxes that Merc pays, and then they could be rewarded with that percent of the profits...

Audience: But you’re proposing that the government do it!
AS: Okay, I’m going to just intervene here, because I think we’re getting very narrowly focused on a particular question...

Audience: Well I’d like to hear his response. Why should the government be in that business?

AS: ...And what we’re really trying to do is to understand some of the components of globalization. That’s what we’re trying to do today. So I’m going to just leave that as a question, an open question, a huge ideological question that we’re not going to be able to answer, even if it’s the only thing we talk about for the next 45 minutes. So what I’d like to do instead is to try to maybe sort of pan out from this particular question of the U.S. pharmaceuticals and AIDS drugs being possibly manufactured in Africa and elsewhere, and ask, okay, let’s say that the WTO under this exception authorized South Africa to go ahead and produce some drugs, and they needed some infusion of cash to do the research and manufacturing. Would they go to the World Bank to try to get some of that money?

RN: God forbid...[

Audience: Can I ask a question real quick that you never defined? Who are the judges in the World Trade Organization? That was asked earlier, and I really wanted to...

AS: So let’s just back up to that, but then let’s move on to try to get to some of these others.

RN: Yeah. So they’re trade lawyers. This is one of the criticisms that has been made quite commonly of the functions of the World Trade Organization, is these three-judge panels that decide disputes in the WTO are trade lawyers and they’re not people who necessarily have expertise in the particular area that’s being addressed. So if it’s what’s sometimes called a trade/trade dispute, maybe that’s less controversial, but if it involves an environmental law or regulation, and the WTO panel is essentially deciding that such a law, like for example in the beef hormone case where the EU had a rule against the import of some U.S. beef on the basis of its treatment of hormones that are banned in Europe, a WTO dispute panel found that the European ban was not justifiable on the basis on the risk to the consumer of consuming this beef. So, a lot of people, especially in Europe, consumer advocates said, well, who are these folks, this panel, to make what’s essentially a scientific determination? They’re saying that there is not a scientific basis for doing so. Well, what are these guys, scientists? No, actually they’re trade lawyers. So that’s...

Audience: Trade lawyers from where, what countries, and who appoints them? Does it rotate?

RN: Yeah, it’s not always the same folks; it’s appointed by the WTO, and they are from different countries.

Audience: And what’s their relationship to the IMF?

RN: Um, the IMF and the World Bank and the WTO have an agreement convergence document, and they collaborate. The IMF and the World Bank are much more closely tied—the IMF and the World
Bank were created at more or less the same time at the end of the Second World War; they have a very similar governing structure; they both operate on the basis of one dollar, one vote so that the richest countries in the world, the so-called G-7—industrial democracies: the U.S., Canada, Britain, Germany, France, Japan and Italy—have a working majority of the shares, so the IMF and the World Bank in this sense are like corporations. They have a working majority of the shares and therefore these 7 countries basically own and control the IMF and the World Bank, which arguably is what makes the G-7 the G-7. Like who cares about these 7 countries? Because they control the IMF and the World Bank. So when the G-7 have a summit, and they say, x, y, and z is going to happen with Third World debt, well that’s what happens, because these are the countries that control the IMF and the World Bank. The WTO at least formally doesn’t have quite such a lopsided structure. Formally all the countries in the WTO are equal and the WTO operates by consensus. In practice, the biggest economies have the whip. There’s this group called the quad countries, which is the U.S., the EU, Canada, Australia, Japan, and historically, these countries have dominated the WTO agenda. That process blew up a little in Seattle, and arguably was sort of the real blow-up story in Seattle. The flashy part was the demonstrations in the street, but arguably the real story was the conflict between the countries that had always dominated the WTO agenda developing countries that didn’t want to just sign on the dotted line anymore and resisted that process of fake consensus and decision-making.

Audience: Can we just back up a little bit? You’re talking about the IMF and the World Bank being developed after World War II and GATT was also. What at that time—because I’m trying to understand how the GATT relates to the World Bank and the IMF, and how it was formed and then evolved into the WTO, and what role developing countries had in the beginning and how that’s changed over time, because they’re the ones that seem to be not really well-represented, and now there’s been issues that are coming up that they don’t have the power...

Audience: And if I could just add to that, why were these bodies created, what was their function?

Audience: But also, really the relation of GATT to the WTO, and the UN and how that...

RN: So as Seth was mentioning earlier, there was a big concern coming after the Second World War about the role of economic collapse in the Great Depression and the creation of the war, and there was a great desire for international structure that would hold countries together economically and discourage the use of punitive trade barriers and sanctions and so on and so forth. That’s sort of like the enlightened liberal take on it. But that was definitely part of what was going on. Of course another part of what was going on was that there were certain people, certain countries that were definitely running the process and writing the rules in a way that would benefit them: the U.S. emerged from the war in an extremely, unprecedentedly strong position in terms of shaping the rules, and the IMF and the World Bank were sort of designed in a conference in New England called Brett Woods, where the U.S. Treasury Department was the main player, the U.S. and Britain, but mainly the U.S. The proposals that the U.S. brought were basically the proposals that were adopted. At that time, the U.S. did not want such a strong trade regime as exists now, because there were some areas that the U.S. wanted to kind of keep off the table like agriculture. At that time the U.S., particularly from its own very bitter experiences in the pre-Great Depression and total collapse of agriculture and the economy in the United States, had a very highly interventionist regime in agriculture and intended to keep it and didn’t want it to be messed with in any way. So at that time the U.S. was not in the market for such a strong
trade regime. By the ‘80s and ‘90s, there was a real shift in the United States towards a sense, particularly in respect to agriculture which is one of the big things that the WTO brought in was bringing the trade globalization to agriculture. There was a shift in the U.S. agribusiness, the idea that actually now we would be better off with a liberalized regime.

And why did developing countries sign off on this? Well, partly because they were threatened. The notion was that if you’re not in the WTO, you’re going to be left totally behind. And the U.S. and the Western European countries used their market power to say that you’re going to be cut out completely. And the carrot was that if you participate in this, you’ll have guaranteed access to Northern markets that you’ll be able to export to, and one of the elements of bitterness about the outcomes is not only all of the bad thing that are perceived to have happened to developing countries, but also that the carrot was not what it was made out to be: the benefits have not been seen from exporting to Northern markets. That didn’t answer all the questions, but I tried to handle like, I don’t know, somewhere between three to seven of them.

MN: Could we get back to the IMF and World Bank, because Seth in the beginning when you talked about globalization, you talked about there being a set of sort of interests that benefits from a certain kind of global interpenetration, and that by implication you were suggesting then that whatever governing system exists, like the WTO, exists to insure that the shape of that global economy is in the interests of those particularly strong interests, like the U.S. and European countries and perhaps Japan. And I guess then the World Bank and the IMF are like the WTO, are part of some kind of governance mechanism the helps regulate that world system in that way, and could you maybe talk a bit about just what the IMF does and what does the World Bank do and how are they related to each other, and maybe use perhaps the Asian Financial Crisis as an example of how they function and because they made some mistakes there...

AS: Or maybe a more concrete example first, because that’s a very complicated one, and maybe we can talk about some of the health clinic issues and those kinds of things.

SA: Yeah, I think the IMF is a good place to start with this, because like I said, I think that it does illustrate the point I was trying to make before about how what’s called globalization, and what’s made to seem like this kind of historical, natural process towards just greater international integration, is actually something very specific, and it affects people’s interests differently, and it’s related to very specific policies about how you run an economy. And the IMF has a key role in that, maybe the key role in that. And this is a role that really was very poorly understood by the broader public even just a few years ago, and the kind of movements that developed in the last couple of years that you saw in Washington at the IMF meeting a couple of years ago or last year and elsewhere, have brought a lot of attention to this, which is a good thing.

So the role of the IMF, as it has been for the last 20 years or so, because it hasn’t always been the way it is now—when it was first formed after the war, it didn’t have this enormous role in setting countries policies—but over the past 20, 25 years, especially the last 20 years, it’s role has gotten much more interventionist. And basically what happens is—and the Asian Financial Crisis is a good example—developing countries tend to borrow money from abroad. If they’re credit-worthy enough, they’ll borrow money from the private sector, from banks and brokerage houses and bond markets just like
anybody else. But because their domestic currencies are—people don’t have a lot of confidence in them, because they’re poor countries, and they often have histories of inflation and things like that. Foreign lenders and foreign investors don’t really like to lend money to those poor countries in their own currencies, because who knows? Maybe when the money gets paid back, their currency will be worthless because of inflation or whatever. So they lend money and they borrow money in hard currencies as Robert mentioned—in dollars, in Euros, in yen to a lesser extent, mostly in dollars. So it presents this quandary where developing countries, in order to make their economies work okay and to fund investment and so on, they have to borrow money in, say, dollars, like a Korean company will borrow money in dollars from abroad, from an American bank or a European bank to fund some investment, and then they have to pay the money back in dollars, even though the country’s domestic currency, in the case of Korea, would be the won. And the only way they can make dollars, since their country doesn’t print it itself, is to export to a country or a customer that can pay them in dollars, in other words, export to the First World.

Now what happens when the country for one reason or another no longer has enough foreign currency reserves—no longer has enough dollars or Euros, or yen, these hard currencies that they borrowed money in—to pay back their loans? Then they face the prospect of a default: they borrowed all this money and they can’t pay it back in the currencies they borrowed it in, because they’ve run out of their foreign currency reserves. At this point, the IMF can step in, and the IMF’s role is to, in an emergency situation like that, to lend hard currency, to lend dollars to these poor countries that are facing default, to make sure that they can pay back the loans and they won’t have to default.

MN: So who is the IMF really helping then—the country or the bankers?

SA: Well depending on who you ask, obviously. The bankers say it’s helping everybody and so does the IMF and so does the First World...

AS: There’s a follow-up question over here as well...

Audience: It was in the Times that the new treasury secretary met with the World Bank and the IMF, and he wants a little more transparency about what’s happening with that money and those countries. But these two institutions are refusing to do so. For example, in South Africa in 1999, they underspent their health budget. They had money to buy some drugs, but they didn’t. They spent several billion on airplanes and all that. Uganda with its serious AIDS case is using the money to buy a Leer jet for the president instead of buying drugs. So how do you get more transparency from these institutions? How do we know when there’s crony capitalism in an Asian country? How do we get them to be more open?

SA: Well that’s a big question, and let me address that in a second, because that is an important question, and it’s been an issue in all these debates about the IMF, and there are many aspects to these debates, and that’s one important one. So let me get to that in a second. But let me just finish working out this process of what the IMF does when it steps into one of these countries, because this is kind of a mystery to a lot of people, because it’s not often talked about. So this country whose facing default—the IMF can step in and lend money on an emergency basis to the country so that they can
pay back their debts in hard currency. But as a condition of the loan—what’s called IMF conditionality—the country has to agree to a laundry list of demands that the IMF will make, changing all sorts of economic policies. Now these economic policies that they have to change can range from everything from the type of exchange rate regime—whether they have fixed rates or market rates; it’s a complicated story—but it can also be how high their minimum wage is, right? That’s been an item on the conditionality list. So, in other words the IMF will step into this country that’s on the brink of default and is in an emergency situation, maybe they can’t pay back their debts, and says, well okay, we can lend you this money, but you have to do this, this, and this, and it will often be get rid of your minimum wage, weaken your labor laws so that unions can’t operate as freely. It almost always involves reducing the public sector, in other words, reducing money on social programs such as health and education and welfare and things like that. And usually it involves fiddling around with their trade policies, you know, reducing tariffs and liberalizing their laws about foreigners investing in their countries.

And, now, if you ask the IMF, why does it require this list of conditions for these countries—if you ask them publicly—they’ll say, oh well because in order to lend them this money, we have to know that they’re going to change their policies to put them on a sound footing for the future so this won’t happen again. But you might ask, and many people have asked, what the hell does minimum wage have to do with the ability of a country to pay back its foreign currency loans? And the IMF will say, it has a lot to do with it, if they’re asked. More likely, the IMF will deny that they did it, and when you show it to them, they’ll eventually admit that they did require this policy. Because the conditions attached to these loans, often there’s a tremendous amount of obfuscation involved, and there’s a constant fight, and this is a major transparency issue. There’s a constant fight to get them to disclose exactly what they’re requiring these countries to do, because they don’t like disclosing it.

Audience: Are they not...don’t they have to? What secrecy are they allowed on the international scene?

SA: Well that’s a good question. I think Robert’s been at the forefront of that fight to fess up to what they do...

RN: So there’s no governing body that they’re subject to right? There’s no...Al Gore said there’s no controlling authority. The IMF and the World Bank...

Audience: There’s no freedom of information rulings?

RN: No. After all, there’s no such thing as international law really, right? I mean in the sense that there’s no sheriff, right? There’s no court, right? You can’t make a citizen’s arrest. So there is no international freedom of information act. The IMF and the World Bank, after all, are us in a sense, right? I mean they are creatures of the governments that created and sustain them. So, I mean in a way, it’s sort of the idea of the U.S. going to the IMF and to the World Bank and saying, please be more transparent. It’s like me saying to my arm, please be more steady. There’s no country in the world with more control over the IMF and the World Bank than the United States government—it’s not absolute control, but the U.S. is first among equals. And it’s also important to understand that if the governments wanted something else to happen, something different would happen. So to a certain
extent, although these institutions do exist as bureaucracies and they have a certain ideology, certain bureaucratic mandate, right? There are different elements. But if the governments wanted something different to happen, something different would happen.

So you have to assume that there are some interests being served, and there’s some reason why there’s secrecy. And to some degree, it’s not just the governments of the North that are being served by this. You know there are governments in the developing world that are sometimes criticized for being corrupt or for how they use their resources, so maybe they don’t want all of the IMF documents out because maybe this process of obfuscating how decisions are being taken is actually in their interests. In fact, there was actually a congressional commission that did a report on the IMF and the World Bank, called the Melzer commission, and one of the things that they pointed out was that according to the IMF’s own internal documents, they kind of gloated, they kind of bragged that they served this useful function for Third World governments of flack-catching. So, if the government of Argentina wants to cut the public pension system, they can say to the public, well we’ve all gotta tighten our belts, i.e. you guys have to tighten your belts, and it’s terrible but there’s nothing we can do because the IMF is making us do it. And the IMF can say, well these are not our policies. We’re not imposing anything, we’re just advisors, you know, they’re governments, they’re sovereign countries, they do whatever they want. So the fact that the negotiations take place secretly enables this lack of responsibility and accountability.

Audience: But what about if a decision by the IMF, say, I remember in Egypt when they insisted that they restructure things and took away the subsidy for oil and beans and basic food stuff, so there were riots, and this threatens to give the fundamentalists actual ammunition against the existing government, so isn’t it sometimes the case that a decision by the IMF can politically destabilize a government that we want to kind of stay in?

SA: Absolutely. That’s going on right now in Ecuador.

Audience: And then what do we do about it? What happens in terms of...does the U.S. put pressure on the IMF or can we or...how does that play out?

SA: Generally, when these policies are being required by the IMF, the United States approves of this. It’s very rare that the IMF is running around doing things where the U.S. sits back horrified [laughter]. The idea that the U.S. has only even limited control over the IMF is ludicrous and there is a reporter for The New York Times named David Sanger who covers, or used to cover the IMF a lot more than he does now, but the New York Times correspondent, very pro-IMF, very pro this whole regime, and I think he wrote four articles where he used almost the same phrase to describe the U.S. control over the IMF, it was something like the IMF is essentially the off-shore economic policy arm of the U.S. government, of the U.S. treasury department—the control that it wields is enormous, more so than any other institutions, more so than certainly in the WTO even. If the U.S. doesn’t want something to happen, it won’t happen.

Now again, if you ask the IMF why it requires these policies it’ll tell you, oh we just want these countries to be on a firm financial footing for the future. But there was a great quote during the Asian financial crisis, from Nicky Cantor, who at the time was the U.S. trade representative, which is a very
important position that we don’t hear about very much, but he’s like a top U.S. trade negotiator, and he’s the one who’s always trying to gain advantage for U.S. companies in its trade relations with other countries—it’s a top U.S. trade negotiator. During the Asian financial crisis, when these Asian countries were coming to the IMF and the IMF was making these loans with conditions he said that it is absolutely crucial that we use the IMF conditions as, in his words, a “battering ram” to get them to open their markets in favor of our companies. Then in other words, when these countries are in this emergency situation, and they come to the IMF, the IMF says, okay we’ll lend you the money, but only if you follow these conditions that are just for your own good so that you won’t have to come back in the future to get more money. In fact, as the guy who has an amazing amount of control over what the IMF does, or at least did at the time that he was the U.S. trade representative, he himself admitted that the U.S. uses the IMF as a battering ram for its own interests, and that’s why you see in those Asian countries for example and in lots of other countries, those countries might have regulations that say that American banks can’t operate within their countries, because they want to develop a domestic banking system.

Audience: But it sounds, just from this example, like the US international economic interests are at odds with political interests.

RN: Yes.

SA: You mean in cases like Suharto, or...

Audience: Yeah, yeah.

RN: Yeah, sure. Absolutely. You know the U.S…. I mean what’s the U.S.? Is it us? Is it the executive branch? Is it the Congress? Is it the State Department? So sometimes the State Department and the Treasury have different interest, right? The Treasury is pushing economic agenda and the State Department is pushing the geopolitical stability agenda, and they might very well go in different directions. In the wake of the Asian financial crisis and the IMF intervention, Henry Kissinger had an op-ed in *The Washington Post* denouncing the IMF from the classic State Department grounds—like these governments are U.S. allies, and you’re beating the crap out of them and humiliating the leaders in front of their own populations and so on and so forth. So there are definitely…you know the U.S. government is not a mere kind of dome tool of the U.S. corporations, right? There’s people who have a strategic view. You know, during the Cold War there was this thing where Cuban soldiers were defending in Angola U.S. company oil facilities from contra attacks financed by the C.I.A. So the U.S. corporations were working with the Angola government, but U.S. foreign policy was attacking the Angolan government. It split.

SA: But I think it’s important to point out that even though that kind of split interest do happen sometimes, I think more often than not, the State Department and the U.S. executive director at the IMF, which is the U.S. ambassador to the IMF who helps set the policies...

Audience: Who is that now, Seth?
SA: It was Karen Lissiker, and now with the Bush administration, they’re probably going to replace her, I don’t know who they replaced her with.

Audience: Who was Barshevski? What was her deal?

SA: She was the U.S. Trade Representative after Nicky Cantor, who left and became Commerce Secretary. But for example, Turkey recently had to go to the IMF, because it was on the brink of a banking crisis. Now Turkey is a major, key, absolutely essential U.S. military ally in the Middle East, perhaps the most important one after Israel, and the U.S. is always trying to make sure that Turkey is okay. Now when it was commonly noted in the international financial community that if Turkey’s got a problem, the IMF is going to be there for them, and they’re going to give them fairly generous terms, and the reason is not hard to discern: Turkey is a very key NATO ally of the United States and that other countries who come into problems with the IMF might not have quite as good a time.

In Africa there were so many examples of usually corrupt dictators who always received this mysteriously generous financing from the IMF, year after year after year. And, of course, they were constantly misappropriating money and using money to buy their own private jets or whatever, and the IMF, which always takes the high horse about that when it happens with a country that criticizes them, turned a blind eye, didn’t seem to notice it. So there are those instances where for one reason or another, the one interest of the U.S. government conflicts with another—more often than not, those interests go hand in hand.

AS: I have a suggestion, because there’s a lot of hands up. Let’s collect—I see three questions—ask your questions one after another, then we’ll get responses.

Audience: How does the United States Import/Export Bank relate to all of this?

Audience: And who decides if foreign debt is forgiven? And why would you? I mean why I think you would—’cause you should—[laughter] but...

Audience: And also, we’ve been talking a lot about U.S. treasury and governments as representing us. I was wondering if you could talk about corporate interests, and how corporations are using UPS Treasury as a euphemism for the multitude of corporations, and in the case of multi-national corporations, how are their interests represented regardless of where they’re based?

AS: And one more...

Audience: And with all the Russian money that disappeared, the 24 billion dollars from the IMF, can that be recovered [laughter]?

AS: Okay.

SA: That’s a lot of questions.
Audience: I didn’t hear that last question...

AS: The last question was about Russian money that disappeared—where did it go, and can it be recovered? I’m sorry, I didn’t take notes, but there was the money question, the corporations, the acceptable U.S. Treasury and other acceptable government entities are sort of fronting for corporate interests; debt forgiveness; and the import/export.

RN: Okay, let me take Ex/Im first. The Export/Import bank is not as notorious but certainly a player in some of these things. It finances...it makes loans to finance purchases of U.S. goods and subsidizes activities of U.S. corporations. The idea of it is to do two things: to help U.S. business and to help people consume goods produced by U.S. business. And there’ve been two main points of controversy in the last few years around the Ex/Im bank. One is the idea that this is corporate welfare. Like these big U.S. multi-nationals, they need the tax-payer to help them export? Like McDonalds needs assistance from the U.S. Secretary of Export?

Audience: Do they act as almost PR in the funds that go to other countries? I don’t understand...

RN: No, they make loans. So it’s an interest subsidy. So that’s one question is the corporate welfare question. There’s also the question around environmental impacts of projects that have been financed by the Export/Import Bank or would have been financed if there hadn’t been a huge controversy. I believe that the Three Gorges Damn in China at one point had a possibility of getting Ex/Im money, and that was blocked by a huge campaign in the United States. So you can see how the Ex/Im is a player in a number of these things, not as prominent as some of these other institutions. Recently, say like in the last six months, it was announced with great fanfare by the Clinton administration, that the Ex/Im Bank was going to make loans available for countries in Africa, it may have been more broadly, to purchase AIDS drugs. And of course this was a somewhat absurd proposition, right? Because a lot of these countries are already tremendously in debt, so they’re going to borrow money to purchase something that doesn’t generate hard currency, increasing the debt trap. So on the one hand, you’ve got all these groups campaigning for Third World debt cancellation and on the other hand, the U.S. is coming up with a proposal to do something about AIDS that involves taking on hard currency debt, so that the U.S. actually has a lot of persons, I mean even from some of the big development NGOs, saying, no this is a bad idea, and a number of the countries in Africa said, no we’re not going to take these loans, particularly because it was for the purchase of pharmaceuticals at protected Western prices. It was also seen as trying to block the effort to make AIDS drugs affordable. So that’s a little bit about Ex/Im Bank and how it fits in things.

AS: Let me suggest that we leave the debt forgiveness for last, because then we can get into the World Bank, which we haven’t even talked about yet. So, um, corporations...

RN: So this is a good question. You know we’ve been talking, and people do talk about these things in terms of the corporate interests—corporations who back these things, who benefits—which is good for understanding them, and of course, the way that these things generally play out is by appeal to some general framework, which is not completely artifice. So in the example of the IMF policies and the U.S. corporate benefit, obviously the IMF doesn’t openly say to South Korea, you have to open your market so that U.S. companies can come in. They say, you have these restrictions and these are
inefficient, or in the case of banking, you have troubled banks and that’s why you have to let foreign banks come in, so that these banks will be recapitalized, and so on and so forth. And there is a logic there, right? So it’s not completely as if what happens is totally determined by, what’s the corporate interest, and then that’s just crudely translated into some rhetorical justification. There is an ideology there that has a logic, that has an internal consistency, that’s not always wrong; it’s not completely without merit; there is a plausible case that we know when the banking sector’s collapsed, maybe you do need to bring in some foreign banks, and so on and so forth. And these U.S. government actors and these IMF actors, they do believe in the ideology, right? In some cases quite strongly. So I don’t know if that gets at the question, but I hope that helped.

SA: It’s a very complex web of ideology and raw, naked material interests that constantly interact with each other on a daily basis. You know, when you look at the IMF, and it’s staffed by economists—they’re all economists, they’ve all been trained in the principles of economic theory, and for example our former Treasury Secretary, Laurence Summers, was a very recognized academic economist, a very eminent academic economist. Here’s a perfect example with Summers. When Larry Summers, the former Treasury Secretary, was an academic at Harvard, one of the most celebrated economists of his time, he once wrote an academic, scholarly paper that endorsed the idea of having a tax on financial transactions, which is called a Tobin tax, and this is one of the ideas that the radical left-wing protesters that you see in the streets have been pushing for a long time. They have a small tax on financial transactions across borders, and that’ll kind of reduce the enormous influence that capital flows and financial markets have on poor countries. And he wrote a paper where he investigated the evidence and did some theoretical work and looked at empirical data, and he endorsed this idea of having a transaction tax, which is like I said a radical left-wing idea in the framework of these debates. Now pretty soon he became the Secretary of the Treasury. Now you might think that because he’s an economist, and he was picked to be the Treasury Secretary, because he was such an eminent economist, that he would bring his scholarly knowledge that he’s found in his work at Harvard to bear, and he would say, let’s have a transactions tax, let’s bring that up at the IMF, maybe bring it up at the United Nations and get this thing moving. No, you didn’t hear a word about the transactions tax from Larry Summers. In fact, when the idea was brought up at the United Nations by poor countries while he was still on the watch at the Treasury Department, the U.S. did everything it could to kill the idea.

So, when these people talk about how the IMF’s policies are all dictated by the sound economic theories as elaborated by intellectuals in their ivory tower, it’s true to some extent, because most of these economists do adhere to these neo-liberal, free market, orthodox policies for various, complicated reasons. But it’s not like when one of these economists crunches the numbers and it turns out that we ought to nationalize the banks or something, that you nationalize the banks. That doesn’t happen. There are these interests—these corporate interests and business interests—that are constantly coming into play when U.S. policy is being developed, and they lobby every day. I mean the Office of the U.S. Trade Representative, which is a very important position in the U.S. government, has corporations coming to it every day saying, look we have this subsidy in Brazil that we want to get rid of; we want to have this regulation eliminated in this country, and the trade representative says, okay, I’ll see what I can do. And so they constantly hear this stuff, and the business roundtable writes papers saying, here’s what the trade representative ought to do, and they hear this stuff all the time. So I bet there have been times when Larry Summers got lobbied or one of his proxies got lobbied by an American company that said, I want this to happen: I want this subsidy removed, or something like
that. And Larry Summers might have said, well as an academic economist, I can tell you that there might actually be a good economic reason for that subsidy, so no. That very well might have happened, probably did happen at some point. But the whole ideology of these economic theories is very much part of the material interests of the dominant sectors in our society, just as every other society has their ideology shaped by who’s in power and who controls the resources and so on.

Audience: I was just wondering if NAFTA would be an example of how these organizations work, because in the competing views and justifications for NAFTA, I’m just wondering what the real story is and how those ideologies and these organizations interact to mask the real story or tell the real story...

RN: Well here’s a little story that may illustrate that which some of you may have heard. I just happened to hear this on public radio a few months ago. There was apparently as part of NAFTA, U.S. car manufacturers negotiated a provision that bars the importation of used cars from the United States into Mexico. This is counterintuitive, right? This is a free trade agreement; it’s about increasing trade between the United States and Mexico. But there’s a provision in NAFTA that actually bars Mexican citizens from coming to the United States to purchase used cars. And the reason was that as part of the whole NAFTA process, U.S. auto companies were making big investments in Mexico, and they wanted to protect their investments. They didn’t want Mexicans to be able to come to the United States and buy used cars; they wanted to force them to buy the cars that the U.S. companies were producing in Mexico for them to buy. So that’s just sort of one little example to show that there’s lots of stuff going on in these agreements that has nothing to do with free trade. It has to do with a set of rules that are being written for trade, that are being written in the interest of powerful actors that are setting the agenda.

SA: And the pharmaceutical example was a perfect example, because like I said, every free trade agreement that gets made always involves one of these intellectual property agreements, but they are by definition, protections, by definition. Because it means that when Merc develops a drug, the country, say Thailand, is not allowed by any means at all to produce a competing drug, you know, the same thing to compete with it to drive down the price. That’s not allowed; that’s barred. So, it’s like straight-out, flat-out protectionism. And Dean Baker, an economist, he’s shown that actually if you look at the effects on prices, they always say that protectionism raises prices and is bad for the consumer. Well that’s true—if you have a five percent tariff on something, it might increase the price of it by five percent. But patent protection, you can actually show that it increases the price by 200 or 300 or 400 percent. Now again, that may be good. We can have debates about what the role of patents are, and so on. But it has nothing to do with free trade; it has everything to do with the opposite of free trade. But again, it’s in the interests of pharmaceutical companies in the United States, and they play a very active role in shaping these trade agreements.

AS: We still have a stack of questions we haven’t quite gotten to. The Russian money and then we were going to talk about debt forgiveness.

RN: The Russian question is easy. Not bloody likely [laughter]. The thing to understand there is just like Watergate and a lot of other scandals, there’s kind of like the little scandal and the big scandal? So the little scandal gets all the attention and the big scandal gets very little attention. So the little scandal that got a lot of attention was that some of the money that was lent by the IMF to Russia might have
gone through a devious route, like kind of the central bank put it in an offshore place and so on and so forth. Which is bad, and maybe some stuff got siphoned off, which is bad enough.

But the big scandal is what was intended by the IMF and happened as a result of the deliberate IMF policy. At the time of the IMF intervention, the Russian ruble had a fixed value relative to foreign currency, and one of the tragic ironies to how the IMF has evolved is that whereas in previous times it encouraged countries to have policies that enabled them to export more, as it’s become more and more shaped by the financial sector, it has, against the advice of even mainstream economists, gotten tied up in these fixed exchange rate, because the idea was that if Russia devalues the ruble, and the same thing happened in Brazil, then foreign investors will get burned, and they’ll lose confidence in Russia. So Russia was being told to maintain this overvalued, fixed value of the ruble in order that it could serve its debts, even though this policy was destroying the Russian economy. So Russia was out of hard currency to defend its valued ruble, so the IMF made a big loan to give Russia hard currency to defend this overvalued ruble, but the policy failed—the ruble crashed anyway. After the Russian government spent billions of dollars that had been lent by the IMF to prop up the ruble. So, in other words, billions of dollars of IMF money was basically flushed down the toilette, not thorough any theft, but through the actual, intended use of the money according to IMF policy, went straight into the hands of the international investors that were pulling their money out of the country.

MN: I was going to ask you...maybe you need to explain how Russia used that money to prop up...

RN: Right.

Audience: Whose money is the IMF’s money? Where does it come from?

RN: It comes from us.

AS: Us, the taxpayers?

RN: Yeah. The U.S. has about a fifth of the shares of the IMF...

Audience: Is it part of the United Nations?

RN: No. So that roughly speaking, you could say that if the IMF lends 5 dollars, a dollar out of the five is our dollar.

Audience: And we have the biggest share?

RN: We have the biggest share. A fifth.

Audience: U.S. government or U.S. companies?

RN: U.S. government. It’s the U.S., you know, like April 15th? Some of that money is going to the IMF and being used in this way. So the only question is, how are they propping it up? They’re propping it up
by...as a country that has a fixed exchange rate, that finds itself in a situation where currency traders believe the currency will fall, will find that the currency is starting to fall as people pull out of the currency. So you could do one of two things. You could say, okay well it’s falling, let it go, or...

AS: But say people pull out of the currency, we’re talking again about people who have invested in...who have bought up the currency as a commodity. Right? We’re not talking about folks in Moscow going to the bank and taking out some rubles to buy groceries?

RN: No, although you could be talking about...

Audience: It’s just on the international market then?

RN: Yeah so you could also be talking about Russian citizens who lose faith in the currency, and to the extent that they have any savings, they might, if they have the ability, like open dollar accounts. Other ruble holders might try to get out of rubles and put their money in dollars, because they think there’s going to be a run on the ruble.

AS: But mostly we’re talking about currency speculators?

RN: Mostly we’re talking about currency speculators. And also, we’re talking about a different version of the same thing, which is people who have made short-term loans to the Russian government—short-term, hard currency denominated loans to the Russian government who will not renew those loans if they think that the Russian government can’t pay. So that question of foreign investor confidence comes on both sides of that. So what could the Russian government or any government do in this situation? One thing that they could do is have a policy of buying dollars with rubles—trying to intervene in the very same market and restore confidence by putting a massive infusion of cash on the other side of the equation. And that’s the standard intervention; in fact, if you have a fixed exchange rate, by having a fixed exchange rate, you are essentially saying that when push comes to shove, you will do that kind of intervention. Like if you don’t, then you won’t have a fixed exchange rate for long.

SA: Normally, currencies aren’t fixed. That’s not the normal situation. Normally, currencies float freely in the markets, and the price of the currency, the exchange rate, is set by supply and demand. If there’s a big demand for rubles, and so people who have dollars are selling their dollars to get rubles, then the price of the ruble is going to go up, just like any other commodity—the exchange rate is going to go up. Conversely, if people don’t want rubles—they think the ruble is diseased and is going to lose its value—then they’re going to sell their rubles, and try to get dollars. Then when they sell the rubles, the price of the ruble is going to go down. The exchange rate is just the price of the currency, measured in other currencies.

MN: So, in this particular case, then the former Soviet Union got the money from the IMF and intervened in those markets, presumably to buy rubles to increase the demand, which would increase the value, they hoped, through the fixed exchange rate.

RN: Right.
SA: Instead of having currency just float freely and according to the day to day transactions of the markets, let the ruble go up and down, the Russians had a constant policy of a fixed exchange rate, which meant that they wanted the ruble to be, let’s say, two to the dollar, and then if the ruble looked like it was edging up from two to the dollar, it would intervene in the markets and quickly sell rubles in exchange for dollars, and bring it back down. And if it looked like the ruble was going a little below two to the dollar, it would intervene in the markets and buy up rubles in exchange for dollars and push it back up, so that every day, it was pretty much along a flat line of two to the dollar, or whatever exchange rate they wanted. So that was like a day-to-day policy that the Russian central bank was pursuing.

And the problem is that it’s a lot easier to intervene in the markets when you want to push your currency down than it is when you want to push your currency up. Because when you want to push your currency down, all you have to do is print more of your money and sell it. But when you want to push your currency up, you have to get a foreign currency—dollars, a hard currency—and use that in the markets and sell those dollars and buy up rubles. That’s a lot harder, because they don’t print dollars. They need to get dollars from America or get dollars from Europe. So they needed foreign exchange reserves in order to be able to keep their currency up at two for one or whatever. So when it looked like traders were constantly dumping the ruble and selling it and pushing it down and down and down, in order to prop it back up, the Russians needed more and more dollars to throw into the markets to feed the demand, to sell those dollars to buy up rubles. So that’s what the IMF stepped in and lent them.

AS: I want to move on to the question of debt forgiveness and one of the issues we hear about a lot is, why are these countries in such massive debt in the first place and this might be our chance to talk about the World Bank and its role in all of this, because we only have about fifteen minutes left anyway, so let’s see what we can say about debt and the world bank. So who’s the World Bank, where do they get their money, what do they do? The IMF deals with monetary matters, the World Bank does a kind of parallel job with sort of on the ground development, right?

RN: So there’s a lot of overlap depending on what country you’re talking about. But in general, there are still some clear differences between the two institutions. One is that the IMF lends only to governments, and the World Bank lends to governments and to projects. The IMF lends to like, the central government budget. Another is that the IMF’s money comes only from direct government contributions of the member governments. With the World Bank, it also borrows on private capital markets—about 80 percent of the World Bank’s resources come from borrowing on private capital. They actually issue bonds, World Bank bonds, and these bonds are sort of quasi-backed by the member governments. There are quite a few countries in the world right now that are arguably in a position of unsustainable debt. But there are about 41 countries that have been the central focus of international campaigns on the debt issue. These countries are the so-called heavily indebted poor countries; this is a World Bank designation. This set of countries in the judgment of the World Bank are poor and heavily indebted. And these are countries for whom the level of their external debt is extremely high relative to their economies, and the debt service that they would be paying if they were current on their debt, would be very high relative to their economies.
Audience: And to whom do they owe the money?

RN: It’s mixed, and it also depends on the country, but broadly speaking, about twenty percent of the debt is owed to the international financial institutions, mainly the IMF and the World Bank, but also in the case of Africa, the African Development Bank, and in the case of Latin America, the Inter-America Development Bank.

Audience: Could you say again where the World Bank gets their money?

RN: So the World Bank initially got its money in the same way as the IMF, from the governments, but also unlike the IMF, the World Bank is permitted to borrow in private capital markets so they’re able to leverage the money that they get from governments in order to issue bonds and borrow some private capital.

Audience: So the U.S. isn’t represented one in five in the same way that it’s represented in the IMF?

RN: It absolutely is represented one in five in the World Bank, although by custom the balance of power in the World Bank is a little more distributed than the IMF, which by custom, the influence of the U.S. is greater.

Audience: Where are these headquartered?

RN: Washington—a couple blocks from my office.

AS: So what kinds of things does...who gets to ask for money from the World Bank and to do what with it, and why does anybody think that the World Bank is nefarious?

RN: Countries get to ask for money from the World Bank, and there’s a lot of different reasons why a range of different people think that the World Bank is nefarious in different ways. So, one set of issues for example have to do with the environment. So, for years, environmental organizations have campaigned against particular World Bank projects like dams. Ironically, I was thinking about this on the way over, the time that the World Bank was created, probably a crowd of people like this would have been more sympathetic to huge infrastructure projects than is the case today. You know, like Woody Guthrie wrote a song about a damn, and it used to be like, right-thinking liberal opinion thought that huge infrastructure projects were a great idea. Of course the world is changed, and more people are aware that huge infrastructure projects have really nasty consequences including on the environment, on indigenous people, people who get resettled, and also that often these projects turn out to be boondoggles even in narrow economic terms, so there’s been a lot of pressure on the World Bank, specific to the World Bank, having to do with controversial projects and environmental and other groups have succeeded over the years in getting the World Bank to adopt certain guidelines which are supposed to prevent the worst abuses, and sometimes these guidelines work and sometimes they don’t.
A couple famous cases from the last year—there was a project in China, called the “Western China Poverty Reduction Project” which was supposed to take place in the Tibet region. It involved resettling of ethnic Chinese farmers, so this was very controversial, because it was posed by the Tibet groups who saw it as part of the Chinese government’s strategy of diluting the Tibetan population in the region, in addition to other concerns that were being raised about environmental issues and so on. There was a lot of controversy about not only the project, but how the World Bank handled it; the groups charged that the World Bank violated its own policy guidelines in a number of areas like voluntary resettlement and environment and so on and so forth. And eventually as a result of the controversy, the Chinese government actually withdrew the project, so that was...it would be too much to say that the system worked, but it didn’t completely fail in that case. Another really controversial project was the Chad/Cameroon pipeline, which has gone through. This was a pipeline connecting oil fields in Chad, which is landlocked, to the sea through Cameroon. It was very controversial for a number of reasons. One was displacing indigenous people, one was going through sensitive rainforests, another that the governments of Chad and Cameroon are notoriously very corrupt, and the government of Cameroon was involved in a civil war—it was felt that this was adding fuel to the fire, because this would be giving hard currency to the Cameroon government to buy weapons to be used against their opponents, and that this would exacerbate the already nasty human rights situation there. Also, some people charged that the resources that are being extracted from these countries, the actual money was shockingly low, and some people argued that the project was essentially run by Exxon and now Exxon-Mobil, and Chevron I think.

And some people said, these companies have access to private capital markets. What do they need the World Bank to help them with this loan for? And apparently the reason was that they wanted a kind of political risk insurance; because of the World Banks’ leverage in these poor countries, they could get a contract with these governments with the World Bank’s signature on it, then the World Bank would be part of the contract and the governments couldn’t renege, they couldn’t later after the pipeline was in place say, we don’t really like what you’re paying us, so we’re going to increase it, because the World Bank would enforce the contract. So there’s a little bit of a taste on the environmental side. And that’s kind of a historical thing. Going back a few years, ask any person who knew anything about the IMF and the World Bank, that’s what they would know, that the World Bank made loans for some controversial project.

Increasingly, recently the World Bank has also come under attack similar to the IMF for the economic policies that they’ve been pushing that are tied to policy conditionality, so the type that Seth has talked about. And in the last couple years, the interventions in Asia, in Brazil and Russia, wherever the IMF is in the lead, the World Bank is also there too, and often the World Bank has more money in the package and is also putting a lot of the conditions. So one case was the World Bank’s intervention in Mozambique’s cashew nut processing industry, where the World Bank decided it was in their view, economically inefficient for Mozambique to be exporting cashews, which was once one of the main industries in the country, like the fourth largest employer, and they said, you have to remove protection for this industry, it’s inefficient, and the World Bank was able to impose this policy on Mozambique, as a result of which all the factories closed and thousands of workers lost their jobs. As a result of protests, eventually the World Bank agreed to have a new study that showed that the Mozambique government was right, the World Bank was wrong, and that the World Bank’s policy wasn’t justified. And they finally did actually, in the last few months, reverse it and allow Mozambique
to put back in place its support for the industry. One could go on and on, but that’s just a little bit of a taste of some areas of controversy.

Audience: Why would one go to the World Bank instead of IMF?

RN: Well in many of these countries, the IMF and the World Bank are both involved. They have a little bit different brief. It’s the IMF that’s going to be talking to countries about their monetary policy and their interest rates; it’s the World Bank that’s going to be talking to countries about their agricultural trade policies, for example. So they’re working in a bit different areas. And it’s the World Bank who’s going to be lending money for projects.

Audience: And who decides about debt being forgiven? I still want to know that.

RN: So... it’s immediately it’s the IMF and the World Bank. These countries have to go to negotiation with the IMF and the World Bank. And also something called the Paris Club, which is a club of bilateral creditor governments. It’s the same group of people sitting around different tables.

SA: It’s important to remember that most of the debt for the really, really poor countries is debt that they owe to the IMF, the World Bank, the regional development banks, in other words public institutions, not Merrill Lynch, because most of those countries are so non credit-worthy, that private lenders won’t lend money to them. So when you talk about the debt of the really, really poorest countries, most of it comes from public institutions like the IMF and the World Bank, and if they wanted to, and again these are institutions that our government has a tremendous influence on, they could forgive those countries debts.

And you might ask, why forgive those debts? Most debts don’t get forgiven. But, and I think this is the most important point, there are many, many countries including many not too far from our own shores, where their debt load, the money that they pay to the IMF and the World Bank every year just to service their debts, the interest payments, are multiples of what they spend on education or health care. I mean, they devote literally—I don’t know what the highest numbers are—but maybe 40 percent of...What kind of shares of GDP are we talking about for debt servicing for the really, really indebted countries?

RN: For the actual pay for many countries, it can go as high as 10, 15 percent of their export earning.

SA: So of all the money that they have, that these countries have from their export earnings, for them to buy machinery so that they can invest in a new industry so that they can provide jobs for their people or whatever—15 percent of that money from these desperately poor countries is going into the coffers of the IMF and the World Bank to repay these debts that were incurred years ago and constantly have to be renewed. And for the most part, these debts were to finance things that the country, for example the country has an enormous earthquake, and the money that’s necessary to provide relief for these people who are trapped in enormous mudslides, the only way they can finance that is to go to the IMF. So the IMF or the World Bank, these institutions lend huge amounts of money to this country by the standards of this countries economy, impose these conditions in many cases,
which are harmful to the economy and harmful especially to poor people in the economy, and then the accumulated debt that they have, that they can never pay back, piles up because of interest payments and now ten or fifteen percent of all the money they have available to buy products from abroad for capital investments or whatever has to go to the IMF. And this leaves very little money left over for health care and education and all those other important things.

AS: So what’s the principle for just not forgiving this debt? I mean what do they say?

RN: Control. At the end of the day, it’s about control. When push comes to shove, what you’ll get from IMF and World Bank treasury officials is, we can’t cancel this debt because then we would lose our leverage to make these countries pursue sound economic policies—of course sound economic policies means policies designed by the IMF and the World Bank. It’s the leverage that allows the IMF and the World Bank to run these countries, particularly the poorest countries.

Audience: Well the World Bank sells bonds—who buys those bonds, because that’s ultimately the people who are no longer going to buy those bonds, because they’re not making any money off those bonds. The World Bank’s not going to be able to raise money if...I mean, I didn’t know the World Bank sold bonds, so if they’re selling bonds, those are the people who are calling the shots. Who’s buying those bonds?

RN: You are. I mean, you might be. If you have money in some money market fund, it may hold World Bank bonds.

SA: Or if you go to NYU and their endowment is invested in all sorts of bonds and stocks, World Bank bonds are very likely in that endowment.

Audience: So if they don’t pay, how does...I mean, just to play the devil’s advocate for a second...

RN: Doesn’t the devil have enough advocacy [laughter]?

Audience: Okay, but I just...in terms of understanding this, I have to understand the other side, okay? Which is that if I borrow money, I’m asked to pay it back, and in the case of countries that borrow money from the World Bank and the IMF, it’s not always disaster relief, we know that, right?

RN: Sure.

Audience: So if I’m borrowing money for a business that I believe will be successful in my country, and it isn’t or whatever happens, and I, well actually, the problem is...

MN: But Melanie, you can declare bankruptcy, right? And then everything gets sorted out, and you start over again.
Audience: But wait a second, because if I have my retirement savings, my pension plan, whatever, in the World Bank bonds, and then the country that's providing my retirement savings defaults on those bonds, then it seems to me, it's more than just leverage. It's more than just power and control.

RN: Agreed, agreed. I said at the end of the day, it's leverage. So there's a number of other things.

Audience: But how can an organization that lends money, how can they just have a policy of forgiving it if their whole thing is that they lend money so that they'll get paid back?

Audience: And how high are the interest rates, because that's certainly a factor when you're talking about loans.

Audience: And aren't many of these terribly ill-advised loans...

RN: Yes, yes.

Audience: ...to corrupt governments, and...

RN: Yes, yes, absolutely. So here's a key thing. You know, with all this stuff, it's always important to have your eye out for situations where there's a total contradiction between the ideology and the practice, right? So, we talked about patents and how that's not the free market. So the IMF and the World Bank are these strange institutions that around the world are promoting the free market, and yet constantly behave in very non-free market ways.

Audience: But that's not answering my question. Sorry, I don't mean to be disrespectful, but I need you to answer my question.

RN: I will. I am answering you question. Be a little patient. A commercial bank that lends you money, if you cannot pay it off, if you cannot service that debt, good, standard, legally mandated accounting practice in the United States require the bank to eventually write off on its books a non-performing loan. It has to report, look we are not being paid on this loan; we have to cross this off of the asset column.

Audience: And settle for less than I owe.

SA: Right. And this is done all the time.

RN: So that's the first thing, and the IMF and the World Bank have always resisted this: no, no, no, we have to get paid. Secondly these poorest countries are not servicing these debts at the level at which on paper they're supposed to be servicing them. So the demand for canceling the debts is in part a demand for honesty and transparency in accounting. The status quo is that instead of the IMF and the World Bank simply admitting reality, and saying, okay, this loan will never be paid; this country will never be in a position to pay this loan, or they would have to starve their people to death, right?
Audience: So then why the hell are they making those loans in the first place?

SA: This is a very good question, and the answer is control, as he was saying earlier. The reason why the World Bank, and this happens all the time...

Audience: I mean there’s grants, right [laughter]? No I mean...

SA: Well what you see all the time in these poor countries, they’ll say for example, we need to build a network of local, rural health clinics, which are very simple. It doesn’t require all sorts of fancy machinery, and most of the materials you need to build these things, you can buy right in the country by themselves. So you don’t need any hard currency—they can pay for it in their local currencies. Yet the World Bank will come in and insist that they borrow dollars. Why do they do that? The reason is that ultimately the World Bank knows that if these countries have a burden of debt payments denominated in dollars, it requires them constantly to have to come up with the dollar earnings to pay them back, which means that they have to be engaged in export-oriented industries, where instead of building for their own local market, instead of producing for the local market and the very basic needs that most of these very poor countries have, they have to produce for the world export market.

Audience: So to promote globalization, which is exactly where we began.

SA: Exactly, that’s exactly right. And the point that we made, that I think could be made a little clearer, is that a lot of these countries have debt burdens—they’re not even paying back all the money that they’re supposed to be. They owe so much money, let’s say a little country like Nicaragua, that if they were actually paying their debt service as much as they should be according to the normal schedule, they’d be paying fifty percent of their GDP. The country would absolutely collapse. So the IMF doesn’t make them pay back fifty percent, because they know they couldn’t do it. Even a revolution would be too mild a word for what would happen in the country. So they just make them pay back 15 percent or 10 percent, in other words to keep them hooked on the system, to keep them in the cycle of debt and export and loans.

Audience: So why would NYU buy World Bank bonds?

SA: World Bank bonds? Well there happens to be a campaign underway right now for a World Bank boycott, which I think Robert knows about.

RN: Yes, but I do want to address, I mean, I think your question maybe has two parts. Like, morally why should you buy World Bank bonds, and morally a lot of people would say, well maybe you shouldn’t. But there’s another connection, that is what is the hit that these institutions are going to take—what is the financial hit that these institutions would take from writing off these loans and admitting that they’re not going to get paid, and it’s very small. For example, Jeffrey Sachs in Russian testimony last year, estimated that the debt of the HIPCs, the heavily indebted poor countries...

Audience: Who’s Jeffrey Sachs?
RN: He’s an economist at Harvard.

Audience: And a disaster for Russia.

RN: And we like to cite him, because he’s not on the left. He’s sort of an apostate from the other side who’s become a very trenchant critic of the IMF and to some degree also the World Bank. So he’s an unimpeachable source for our side...

SA: He used to work with the IMF; he used to be one of their big economists in Russia, and he was a very eminent economist, and then...

RN: So he’s a defector...

SA: Perhaps partly out of guilt. He kind of turned around and started making some very persuasive criticisms of those institutions, and those criticisms have a lot of weight, because it’s Jeffrey Sachs, it’s the guy who used to run these programs.

RN: Right. It’s like Henry Kissinger attacking the IMF. So, to the extent that you’re talking about these institutions canceling debts they’re never going to be paid anyway, they’re not in terms of honest accounting, they’re not actually taking any financial hit at all. They’re not forgoing any income stream from these loans that they would get. And I would say there’s two things going on, because one of the criticisms is that these countries are diverting money from health care and education to debt service. So obviously, they’re paying something, and the debt campaigners are saying, we don’t want that to happen. We don’t want that money to go to the IMF and the World Bank and other creditors. So the institutions are being asked to give up an income stream from these countries. But the debt that they’re being asked to cancel is much bigger in nominal terms than that little stream of debt service that’s actually being paid. Okay, so the seven billion Sachs says that these countries owe the IMF—in 1998 the IMF asked for and received an increase in contributions from its member states. The U.S. gave the IMF 18 billion dollars. Overall the IMF got 90 billion dollars, and that was the increase, which was about a 50 percent increase in the size of the IMF from before. Now the IMF and the World Bank have always accounted these loans, as like, a dollar owed me is a dollar owed me, regardless of your ability to pay. But the U.S. government, interestingly enough, which is also a creditor of these same countries, it carries this debt on the book at ten cents on the dollar. So, its accounting system, the U.S. says, okay, this debt is never going to be paid. So for us, a 7 billion dollar debt from these countries is not a 7 billion dollar asset—it’s a 700 million dollar asset, and if the U.S. writes of this debt in its own U.S. government budget accounting mechanism, the cost, the budget cost is 700 million dollars, because that’s the value that’s actually being forgone. So, if the IMF were to use the same accounting mechanism, then the cost of writing off that 7 billion dollar debt, is just 700 million dollars, which compared to the overall budget of the IMF, at 140 billion dollars or whatever it is, 700 million dollars is chump change.

Audience: What are getting exchanged though are all these companies buying bonds, right? And they’re into buying bonds, because the IMF is propping up these countries so they can build factories there. Is that what you’re saying? Like, Coca cola buys World Bank bonds, knowing that they’re never going to get any money from it, so that they can build a factory there...
RN: No, no, no. It’s two completely different things. If I buy a World Bank bond, I’m making a contract, I’m lending to the World Bank, like I would lend to any other entity. Like if I buy a Citibank bond, that’s a contract between me and Citibank: I give you this money now, you promise me to give me x money back later with some interest. You know if you hold Citibank bonds, you’re not paying attention to what Citibank is doing with its loans. All you care about is whether Citibank pays you off. Citibank may cancel some debt from a bad loan, but it makes no difference to you. The question to you is like, is the World Bank going to go belly up. Right?

Audience: When they made those loans, those high-risk loans, I mean, those of us who in the theater, when you’re doing a show that’s, you don’t know, you budget your box-office on the low side, okay? Because you say, this show’s going to cost me more than I’m going bring in, because it’s a whacked-out, amazing piece of work, and nobody’s going to go [laughter]. So you have that in your annual budget of your theater, so you know from the get-go, okay, I’m only projecting this much. When the IMF or World Bank makes these loans to high-risk countries, and I hate calling them HIPC’s, that seems so hideous, to high-risk countries, are they budgeting low box office [laughter]. Are they figuring that out at the very beginning, or are the figuring that out after the show has a run [laughter]? No, I mean it...

SA: You have to remember that the IMF is not doing this to make a profit, and the World Bank is not doing this to make a profit, and when they make these loans...

RN: And they’re not a theater...[laughter]

Audience: These guys say they want to be everybody’s pals, and they want to make it easier...

RN: The difference is, you may think about yourself as a sort of an artsy theater person, but you’re more like a free market actor than the IMF and the World Bank are, because your theater company could go bankrupt, and the IMF and the World Bank cannot go bankrupt, right? So it doesn’t really matter to the IMF and the World Bank at the end of the day, whether the loan gets paid or not. They have other priorities.

SA: And just two years ago the United States ponied up some extra money to the IMF, because the IMF said they needed more money. That was a vote in Congress that there was a little bit of controversy to, but it’s not like we had a national paralysis and debate over this urgent issue of whether we give more money to the IMF. We just gave it to them. And so did dozens of other countries.

And so I think we have to get back to the question of why they do this. And you have to get away from the idea that the IMF and the World Bank are lenders like banks or lenders like people who finance theater productions. They’re not doing this with green eyeshade to see how much profit they’re going to get, how much money they’re going to get paid back. They know, however they account it in their books, that when they lend several billion dollars to this desperately impoverished country that’s had a hurricane or just a desperately impoverished country that just has a banking crisis—they know that most likely they’re not going to get paid back. And if they’re not going to get paid back, they say, okay fine, pay us this amount instead of this amount. But they want them constantly to have this burden of
debt obligation, because then the IMF gets to write their policies for them. And the fact is that right now the IMF, the bureaucrats in Washington, control the economic policy agendas for something like 120 countries in the world—80 or 90...There’s a figure of the number of countries, most of which are very poor in Africa and Latin America, whose economic policy agenda is entirely written in Washington by IMF bureaucrats.

And if a country, let’s say Nicaragua, paid back all the loans that it owed the IMF, the IMF would have no more ability to write their economic policy for them. And that’s the thing...And there’d be the threat that Nicaragua, which is a perfect example—there’s always the threat that Nicaragua, if it didn’t owe any more money and if it was free of its obligations, what if it decided that it didn’t want to participate in this global economy on the terms that the IMF wants it to, and it wants to kind of secede from the system and set its own agenda. Nicaragua is a perfect example of this, because it did try that in 1979, when it had a revolution, and they reoriented their economy away from the needs of multi-national companies, and they focused on pretty simple things like health care clinics and schools and so forth. Well that would be a disaster from the point of view of the IMF. And in fact, the World Bank cancelled all its lendings to Nicaragua to punish them for doing this back when it had this revolution.

And that’s the goal of the IMF and the World Bank’s policies in these very poor countries—it’s not so they can make a profit. They’re not making any profit. I mean, they had to go with a begging bowl to the United States a couple years ago to get more money. It’s not about profit. It’s about maintaining control over the economic policies of these countries, and it’s not just the IMF. It’s not really the IMF, the IMF doesn’t have an agenda. It’s the United States and to a lesser extent the other developed First World countries that run the IMF.

MN: We need to wrap up. So what I’m going to suggest...

AS: There’s a lot of questions and a lot of activity, so I think we should...

RN: These people aren’t sleeping...

AS: No! But what I want to suggest is, you know, come up, ask your question, we can have conversations more informally, and those who are rustling and going for their coats and need to go should really get up and do that, and we’ll look forward to seeing you in two weeks when we’ll talk about some of the interventions and activism in response to some of these issues, so let’s formally conclude though, with thanks to Seth Ackerman and Robert Naiman [applause].