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"People who want to change things must keep pushing for change"

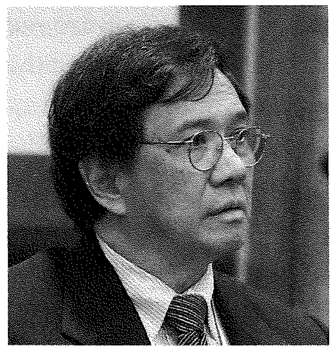

Photo courtesy of Manuel F. Montes.

MANUEL F. MONTES

in conversation with Adrian Pabst

Manuel F. Montes is senior adviser for finance and development at the South Centre in Geneva, Switzerland. Previously he served as chief of development strategies and policy analysis at the United Nations.

Manuel F. Montes brings a wealth of academic knowledge and a long list of credentials at various international and intergovernmental organizations to bear on the current economic crisis in this discussion with Adrian Pabst. He argues that the Asian crisis of 1997 was in many ways a "dress rehearsal" for the current global crisis and was barely confined to the developing world. In the case of both crises, he suggests, the problem was both a massive deferral on matters political and economic to the financial sector and the foisting of excessively large loans on creditors by rapacious financiers. The current model has de facto led to the public sector's bearing the costs for private sector missteps and the risks of investment being socialized while, paradoxically, the financial sector remains central to economic recovery. He concedes, however, that change will be difficult to enact and that we should avoid seeking easy answers in old economic models; he suggests provocatively that the talk of the so-called Asian model is overblown and we should not necessarily look to Asia, despite its successes, for lessons. Montes advocates more stringent regulation of the financial sector that would not so much curtail the total of its activities as decrease the emphasis on financial products while aligning finance with real economic productivity and addressing social concerns.

AP: Manuel, your work has included academia, think tanks, foundations, and intergovernmental organizations and has taken you around the world. What do you think this experience has taught you about the state of the world in the past twenty to thirty years?

MM: I guess the best place to start is to say that change is very difficult to make happen, even though the situation is always changing. Change for a more stable, more development-friendly world is not happening, and there have been setbacks. What has really struck me is that the politics of change is quite important. People who want to change things must keep on pushing for change. They cannot predict when change will happen or how it will happen, and therefore it is a very difficult process.

AP: How would you characterize the current crisis?

MM: My sense—and I am an economist—is that the world is going through the most severe slowdown since the Great Depression. This is not a new observation. But it is not clear whether we are going to have a long-term period of malaise and stagnation because the kind of changes that are needed in order to face up to the real issues involved is not addressed by the political systems that we have right now. In many cases the responses to the economic crisis have exacerbated the situation and reduced the possibility of recovery and the prospect for overcoming the crisis. In a sense it's the same observation that the political arrangements are such that—and I know this is controversial—the proper way to address the problem makes it impossible to implement

the right policies. Some of these are technical solutions; some of them have a more political character. But what has really struck me is that the technical solutions do not command any political support. For example, temporarily nationalizing failing financial companies has proven to be the quickest way to restore the financial sector and avoid a catastrophic collapse of the payments system. But this approach could not be considered, except in the most academic terms, in the United States, the United Kingdom, and Germany.

AP: From your perspective as an economist, what do you think is different about the current crisis—the one that started in 2008 and is still unfolding—from previous crises, such as the Asian crisis of 1997, on which you worked extensively?

MM: What I can say is that the Asian crisis was a dress rehearsal for this one. What is different is that the current crisis struck at the very heart of the global economic system, whereas the Asian crisis of 1997 was supposed to be a local crisis. But even then, that crisis was eventually interpreted by everybody concerned as having endangered the rest of the system. So why was it a rehearsal? It was a crisis in which there was an overexpansion of liquidity and lending to countries that were considered to be "safe," good credit risks. The amount of credit that was almost forced on countries that were supposed to be creditworthy became unsustainable. Eventually the overlending stopped and collecting on previous lending began. When it stopped it created a crisis in the countries that had borrowed money. The crisis then rebounded to the places where the credit started. Many Asians like me now say that because policymakers in the developed countries and Wall Street did not face up to the real causes of the crisis then, it has now come back to bite the people that used to interpret the crisis as a matter of "bad governance." The favored interpretation of Wall Street and the U.S. Treasury was that it was all bad governance on the part of the Asian countries, that it was due to family-crony capitalism, and that it had nothing to do with overexpansion of credit that periodically happens in the global term *vulgar Keynesianism*, about which many of my Keynesian friends would accuse Krugman, which was only about public spending to make up for the problem of insufficient private investment. I think Keynes would say that capitalist systems tend to have a persistent problem of insufficient demand because either the private sector does not invest enough, or, if it did, just as in the recent episode that led to the crisis, it invests in very reckless ways, through piling up, almost like a Ponzi scheme, of credit expansion. If it were living up to the tenets of capitalist morality, the private sector would tend to underinvest. And because it was underinvesting there would always be a need to maintain consumer demand or state demand. In my own view, Keynes always thought that the state had a crucial role in a capitalist economy. It has a crucial role in a crisis and it has a crucial role in ensuring that both consumption and investment demand are sufficient in normal times. But I don't think Keynes would have advocated the kind of reckless credit expansion that led to this crisis.

AP: If the expansion of credit really lies at the heart of these successive financial crises, does that raise more fundamental questions about the relationship between finance and the real economy? Is that one way of saying "We need to rethink the balance between the financial services sector on the one hand and the rest of the economy on the other"?

MM: When Keynes was writing, the financial sector was not as sophisticated as it is now. But he did understand it. He used to do the investing for King's College, Cambridge, and he made a lot of money for them. So he did understand the stock markets and all that stuff. But he also understood that there was a problematic relationship between the real sector and the financial sector. Therefore there is a need to rebalance that. This is where I think politics and political structures are almost impossible to overcome. This crisis happened in the developed countries. But in these dominant capitalist countries—and this is one key difference between this and the Asian crisis—the financial sector has almost captured the political system. This capture of the political system

was probably behind the way the Asian crisis was addressed. Because that was a localized system, somehow the money could be paid back, but, of course, in the end that crisis just metamorphosed and moved to other places, like Russia and Brazil. Even then, the IMF (International Monetary Fund) tried to face up to the problem by suggesting that there should be a new mechanism globally, called the sovereign debt restructuring mechanism. At that time there was the use of the very polite term *burden sharing*.

Anne Krueger, who is well known in economic circles as a free market advocate, said that this has to be the case with the private sector, that the private sector should be part of the solution to the problem; they should recognize the losses as a result of their overlending and therefore should bear part of the cost. But now so far in, for example, the European crisis, the owners of the banking conglomerates that have lent to Spain and Portugal—except those that have lent to Greece—have not borne any of the losses. All of the losses have been passed on to the public sector. Perhaps this is a new version of vulgar Keynesianism whereby private needs are again passed on to the state sector. This is one reason why I think this solution will not work. As long as the public sector is servicing its mostly new debt to the private sector, and as long as the private sector channels these debt payments toward its capitalization instead of lending to employment- and income-creating projects, the economy will stagnate. Because the economy is stagnating, public sector deficits will continue to increase, requiring more borrowing from the private sector. And so on.

AP: Would you then agree with the characterization that the system that has emerged in the past thirty years and has been dominant is a system that privatizes profit, nationalizes losses, and socializes risk?

MM: That's a very good formulation. I come from the Philippines. We always thought that that was the formulation about the debt crises of developing countries. The first debt crisis I was involved with was the 1982 debt crisis following Mexico's default. The reason I was involved was that the Philippines was the only Asian country that became part of a crisis that affected mostly Latin America and a few countries in Africa. The debts had been built up before 1982, after the oil crises in the 1970s. There was the idea that was supposed to have been an admirable maneuver out of the oil crisis of the 1970s but ended with the oil-importing countries having to finance deficits. The Saudis would create deposits in the private sector in New York, and the private banks in New York would turn around and lend money to the developing countries, which would then use the money to finance their deficit on oil imports but also to invest. But when the crisis struck—because many investments didn't work—the costs were socialized and the risk was imposed on the developing countries. So this formulation is very good because you end up rescuing the people who are supposed to have done this admirable maneuver either through using IMF money (at the time they called it "the new money") to pay back the banks in New York, and the rest of the cost was imposed on the borrowing countries.

This is one of the things that I find very interesting about the Europeans. They have now turned the IMF into a highly leveraged institution. Ninety percent of IMF lending is to Europe, and this is how they have socialized the risk and imposed the risk on the IMF. What is scandalous about that to someone from a developing country like me is that the IMF's resources are not just those of the United States and Europe; there are resources coming from developing countries too. How can these rich countries socialize the risk and impose the cost on the developing countries through the IMF? We know that the Europeans can print their own money, while developing countries cannot because our money is not acceptable around the world, while theirs is. I don't know why they have to go through the IMF to be rescued and impose their costs onto poor people.

AP: This raises very important questions about the whole global system as it has unfolded. I'd like to ask you two questions. The first one is about the end of managed exchange rates and the changes in 1971 to the Bretton Woods system of capital controls. The other question

is about the system of global governance and the institutions where the power lies. But let's start with the wider origins of the crisis in the 1990s and more recently, which is this system post-1971. What are your thoughts on these events and how they have shaped subsequent developments?

MM: The Bretton Woods system was decided upon in June 1944. The reason I like to cite that date is because the Normandy landings took place in that month. So the war had not yet been won. But they set up a system because they knew the previous systems were not working. They had this conference in New Hampshire to set up a system that they thought would face up to the problems that had been caused by the interwar system of floating exchange rates. Under the new system there would be controls on exchange rates; there would be one currency (the U.S. dollar) to which all currencies would be pegged, but that itself would be disciplined by its peg to gold. This all fell apart in 1971 because—as an economist from Yale named Robert Triffin said, right after this was put in place—this is a deeply flawed system because in the end, to provide liquidity for the rest of the world for its trade and financial flows, the United States would have to continue to run deficits, and then the United States would run out of gold. The United States de-linked in August 1971 because it was running out of the gold against which the value of the dollar had been pegged.

Keynes himself wanted a different kind of system. He wanted a system in which there would be something almost like fiat money at the global level and people would have to deposit into the IMF, which could then be assigned back and forth among countries. There was degree of self-interest on the part of Britain in this, since it had borrowed large sums of money from the United States. Nevertheless most people would think that this system was better technically because it was not pegged to gold and it was not dependent on the political requirements of a single currency (which are dependent on the domestic politics of that country) and could respond to deficits in a more technically correct manner.

Now we have a system like that of the interwar period, where there are a few dominant currencies and there are swap arrangements between large countries to solve liquidity problems. This is a very dangerous kind of system. Its biggest flaw is the danger coming from the ability of private capital to move very large amounts very quickly across borders. One day you see that Spanish borrowing costs are very low, and the next they are 7 percent. If Spain is borrowing at 7 percent and its growth is not above 7 percent, its debt is unsustainable. This is swamping the ability of the system to maintain exchange rates and interest rates that are consistent with economic growth.

AP: We'll come to possible solutions toward the end of this conversation, but I just want to ask you a second, related question: Does the current system of global governance with institutions like the IMF and the World Bank skew the system in favor of Western countries? Does this system privilege a certain form of finance capitalism that is at the expense of investment in productive activities and human development? Why do you think that system is so resilient to change and transformation? Already in the 1990s there was discussion about changing structural adjustments and bringing in other ideas. But why is that system so resilient, and what can be done to shift it away from this path that hasn't worked out for the world?

MM: One way to interpret the system that was set up at that time was that it was a system based on the way the votes were assigned to countries—the European countries—that were not large players in the global economy. That was very user-oriented because when it was set up, it was expected that the Europeans would be the biggest users. If they had just followed the normal GDP levels, it would have been the United States having 85 percent of the vote and the Europeans 15 percent, or something like that, because the postwar European economies were tiny compared to that of the United States. But they set it up and gave the Europeans a lot of votes in ways that aligned with post–Second World War anticommunist politics, accompanied by the expectation

that Europeans would be the biggest users. Even the World Bank was set up basically to reconstruct Europe. So one way you could interpret this system is that it was one that responded to what the users needed.

In effect, from the 1970s, or perhaps a little earlier, when the IMF and World Bank began to be big lenders to developing countries, the voting distribution should have been changed to one that would have been oriented to what the users wanted, just as Europe had been given a large number of votes that was not justified on the basis of the size of their economies. If you ask me the reason why it has not changed, it's because the Europeans don't want to give up their dominance. One way to approach this is to blame the Europeans very clearly for being unwilling to give up their votes. To a Belgian or a Dane, the highest point of one's diplomatic career would be to sit as an executive director in the IMF, and thus they have more votes than many of these other countries. The United States officially has been quite public about trying to get the Europeans to reduce their voting weight and give more votes to the developing countries. But the United States has other concerns at this time, focused in particular on the future role of emerging economies and the need to contain them. The United States finds it congenial that the Europeans remain significant players. They find the confluence of their interests with those of the Europeans such that they don't want to or cannot force the issue. That's why it hasn't changed.

At the 2006 Singapore annual meeting of the IMF a reform of the voting structure was planned, but in the end they redistributed the votes among developing countries. I think, at a very basic level, it's a matter of not undermining the interests of Wall Street, which had previously succeeded in preventing the setting up of a sovereign debt restructuring mechanism. The U.S. government is very heavily beholden to Wall Street and the financial system. Because that is so, the financial sector would like both the Europeans and the Americans to continue to dominate the IMF and World Bank, which are the main gateways to finance, the main ways in which finance flows globally to the developing countries. It is clear that the IMF itself does not have enough influence over the European and American authorities for basically the same reason: the IMF does not have enough power to force the United States to reduce its deficits. The United States and World Bank have sufficient power over the developing countries, but insufficient power over Europe and the United States. This is the kind of configuration that is consistent with finance capital.

AP: So, paradoxically, global finance capitalism in some ways uses national governments to influence supranational institutions in order to secure its interests. There's an interesting interaction of the global and national levels at all times.

MM: In a sense, the way you described it is how it works. Of course, what is happening now is that there are other parties that are coming to be dominant in finance, like China, so the question is: What will this metamorphose into?

AP: It's interesting because you mention new, emerging powers. Of course, we've heard a lot about emerging markets in the past ten years or so, especially since the BRICS concept was coined by Jim O'Neill in 2001. In addition to these great powers from the past that are once again rising, like India and China, we also seeing other actors—the so-called middle powers, such as Indonesia, the Philippines, and others—and new structures like sovereign wealth funds that are beginning to play a greater role. How do all of these fit into the global system that we've been talking about?

MM: First, I want to say, and I really want to emphasize this, the supposed emergence of these countries is oversold. One reason is that part of their emergence has entailed their opening up their markets to, and their increased dependence on, international trade. The other thing is that many of these are still very small economies. China is certainly still not 10 percent of the global economy. In the 1500s Asia was probably half of the global economy. India's per capita income would qualify it as a Less Developed Country. It's also still a very hierarchical, caste-driven

society. I know the successes in fields like engineering have been celebrated, but that's still a very small part of their economy. These countries also have quite weak internal polities, which will make it difficult for them to be important global players. I'm an economist, but I think their ability to influence the global economy is actually quite limited. So "emergence" is still far away.

In one word, including the new opportunities linked to sovereign wealth funds, the prospects of the global economy still depend on the ability of the rich countries to get their political and economic act together. Otherwise the system will stagnate for ten or more years, which could be a good enough outcome if you're a capitalist, because then you can rise again in ten years with the same rules in place. Or else it will collapse into a system in which there will be autarchy—that's a bad outcome—with individual countries trying to go on their own, and the kind of commerce we have seen thus far will shrink.

AP: This leads us to the next part of this conversation, which is about some of the main areas that you've worked in over the past thirty years: growth and trade, globalization, development. So let's start with trade. There are many around the world calling for greater trade liberalization in order to get the world economy going again in the hope of boosting growth through more trade. What are the prospects for significant changes in global trade? Is it really the case that trade is a major engine of the sort of growth that is now needed? In other words, not just growth in financial services but growth in productive activities is required?

MM: In the immediate period, if this stagnation happens, trade is not going to be a reliable source of positive impact as in the past twenty years. Trade has been directed at exporting (from the developing countries' point of view) to the developed countries. But the developed countries cannot be expected to recover strongly based on their current policies, so I'm not sure that the developing countries can count on trade for the kind of growth and development that they have been able to achieve in the past thirty years. Volume-wise the kind of trade growth in the developed countries of the recent past is not going to be there.

Second, we know that, at least in the previous decade or so, this stupendous growth in trade was based on unsustainable, artificial conditions, dependent on the liquidity that the United States was pumping into the global economy. Any move toward a more stable financial system would require a rate of growth in trade much slower than in the years immediately before the crisis. It would also mean in many cases lower commodity prices, because part of finance-driven growth supported high commodity prices, which was good for Africa and many countries in Latin America. If commodity prices do not stay high, the high growth rates in Africa and Latin America in the years before the crisis cannot be restored. If finance can be reregulated in much the same way that it had been in the first era of the Bretton Woods system, countries would then have to grow more based on their internal dynamics instead of being overly export-dependent. Investment would have to be done in a more pragmatic and more realistic—and less speculative—manner.

AP: How do you see the impact of financialization, which has been growing for the past three decades, on development in general, and perhaps more specifically, on human development?

MM: Since 2007 the impact on human development has not been as dire as had been expected. Part of this is because of the very specific way the developed countries have reacted to the crisis. They have responded by quantitative easing, which means they have gone back to the pumping of liquidity globally, and thus finance continued to be available to the developing countries in very dangerous forms. This was the same kind of finance that came to the Asian countries before. It is dangerous because it has forced many of these countries to let their currencies appreciate, undermining their export industries and their import-competing ones.

Second, many of the developing countries have built up reserves as a result of what they learned from the Asian crisis. Because of these reserves they, particularly China, were able to undertake countercyclical

policies. China undertook a lot of investments after the 2008 crisis, and these investments once again boosted commodity prices. Chinese investment was in building airports and so on, very commodity-dependent in terms of demand for metals, and it helped prop up the developing countries. But the Chinese pattern of growth after 2008 is probably unsustainable because this pattern itself creates a domestic financial bubble. This sort of reprieve is unsustainable because it is based on quantitative easing. In the coming years, depending on how the European crisis and the American crisis are sorted out, there will be much lower growth and much less possibility of depending on trade.

I do not anticipate that commodity prices will be as high as before. One reason I am not sure is that China has overinvested in steel mills and it has empty airports and other spare capacity. The Chinese authorities are aware that they cannot continue this; they need to boost domestic demand. But this is one of the most complicated maneuvers that you can think about: How do you increase consumption demand of your consumers in a significant way in a very short time? And you don't want to do it in the American way, whereby you allow consumers to finance their spending on credit. It's a very dangerous time that we live in.

AP: What's interesting about what you're saying is that, on the one hand, the impact of the global crisis has been cushioned by quantitative easing but, on the other hand, we are setting up problems for the future. So in a sense we have deferred dealing with the underlying issue, which is the relation between credit and the rest of the economy.

MM: Right, so the politics have not been aligned properly. Deferring might be a polite way to say it, but we are probably setting up a bigger crisis. In the case of the Europeans, what they need to do is to figure out a way to convince the financial sector to accept the losses incurred in the period of overlending. Then they can grow again. What the European governments have been doing is giving money to the banks so that they can pay back their creditors without imposing the condition that they must begin lending for new projects to the private sector.

This would be necessary if economic recovery were to happen in the advanced countries. This is the extent of the financial sector's control over the political system.

The way that this is normally done in many countries, when done properly, as in Sweden in 1994 and Malaysia in the 1997 crisis, is to nationalize failing banks. With the government now owning all of the bank assets, it can collect on the good loans and write off the bad ones. After all the bad assets are removed, the banks can be privatized once again. Nationalization is one way of forcing banks to start lending again to the private sector. But because of the dominant political position that the financial sector has, you can't even do this temporarily.

AP: I would like to take the last part of this interview to talk about some potential solutions that have both scholarly credibility and policy relevance. This is very much drawing on your academic research but also your vast experience in international organizations. We can perhaps start with the central point you have made about credit and overexpansion, which has led to all these bubbles that have burst. You have also suggested that we have set ourselves up for perhaps an even greater crisis in the future by engaging in quantitative easing. What would be some of the credit and monetary reforms that you would propose that could begin to deal with this unfolding global crisis?

MM: Well, basically to regulate—reregulate—the financial system in such a way that it does not become the arbiter of what kind of economic activities are undertaken. For example, you can take over a company by buying its shares—in effect, as if it had nothing to do with what the company actually does and what it employs people to do—and you can restructure it based primarily on financial principles. That kind of operation is supposed to be efficiency-oriented, but what it means is that finance's role in an economy has almost nothing to do with what the economy does—with employment, with income, with the kind of products that are produced and what is actually consumed. It's very important to regulate the system so that investment banking provides a way in which it is oriented toward new production and new risk-taking, but not in terms of only buying and selling ownership and restructuring companies. That's one important thing.

The second thing is that governments should have greater power to set the rates of return on capital—interest rates and so on. The "big bang" deregulation had been prompted by the intention to eliminate what was then called "financial repression," which set maximum interest rates on lending. This used to be considered inefficient. The idea was that by removing all of those caps on interest rates, it might be possible to finance more risky projects. But in the end we know from our experience that this opened the door to speculative lending to feed on itself. There should be regulation on the kinds of financial products that are produced and the kinds of margins and leverage that the financial sector can undertake. If you want to take a risk on a project, you should have your own skin in the project, even if you are just a financier. By removing leverage limits, companies have very little stake in it, undermining market accountability on the part of the financial system. Because they have so little invested, losses as highly levered lenders will be very small if a project fails. Thus financiers have managed to exempt themselves from market accountability. Basically I don't consider these to be earth-shaking suggestions.

AP: Now, on questions of investment and human development, where do you see the debate going? What needs to be done now that we've had, in some ways, a shift from structural adjustment toward human development, but still underpinned by neoliberal policy? What, for you, would be the next step in taking this debate in a non-neoliberal direction?

MM: One way to interpret this move toward human development is that it did not contain within it the kinds of policies that would provide more productive jobs and more diversified economies. The UN's Millennium Development Goals (MDGs) were one way to justify neoliberal policies and in a sense to pick up the wounded from these policies, to take care of the victims through social programs meant to achieve the antipoverty goals of the MDGs. What the MDGs did was to make countries responsible for the poverty in their own countries. The long-term way to do this, for an economist like me, is for government to have the possibility of intervening in its domestic economy so that it can diversify, add value to exports, and create productive jobs.

But the neoliberal structure was shrinking the policy space of these governments while giving them responsibility for poverty alleviation. Without domestic policy tools, the only way to achieve the MDGs was through resources from official development assistance, which was completely voluntary on the part of developed countries (and completely political). To be serious about eliminating the problems of structural adjustment is to return the policy space to developing country governments, to allow them to make their own policies, make their own mistakes, and make them accountable to their domestic populations. This would restore democratic accountability on the part of developing countries and their governments, which cannot then blame external conditions imposed by lenders for their policies.

AP: As you say, these principles of democratic accountability are principles not just for politics but also for the economy in the sense that we need to strengthen more participative economic decision making. How can we strengthen participation in the economy? Of course, one thing is to change global governance structures and strengthen democracy around the world, but what about corporations themselves? How can we rethink the way businesses work and strengthen the role of workers, not just for reasons of making them more democratic but perhaps also to increase innovation and productivity (so, if you like, for both ethical and economic purposes)?

MM: First of all, I would differentiate two things. One is the situation of developed countries, and other is the situation of developing countries. In the developed countries, I would say that innovation and accountability on the part of firms is mostly done through regulation, and I think regulation is important, mostly starting with the financial sector. But in developing countries, where firms are just starting up, the state needs to undertake not only regulation but investment through development banking. A large part of this is setting up state enterprises. In the United States, for example, the Tennessee Valley Authority, which allowed the South to rise again, was state-owned.[4] One way to allow the private sector to reemerge in developing countries is to give the state much more capability to tax the rich, to invest, to lend money to private businesses, and to run its own enterprises.

Recently the *Economist* discovered something: that many of the recently successful countries like China and Singapore have a lot of state-owned enterprises. Now is the time to debate their accountability and associated issues, but during their heyday they provided the innovation and the new kinds of jobs that wouldn't have been possible if you didn't have these large pools of capital, which the private sector in many developing countries cannot put together (at least not without state participation).

AP: Is perhaps one way of making that argument also to say that we can shield state enterprises from certain vested interests by, for instance, strengthening community involvement? Examples include models such as cooperatives and community interest companies which actually have the responsibility to work efficiently as a business, but their profit is reinvested in the business rather than going to shareholders or to the national treasury.

AM: I agree with that. A lot of the failures have to do with corruption, but past corruption should not be an excuse for not trying. If you don't have a private sector, how can you develop? Let us debate how to make them more accountable and less wasteful of public resources, but let us try. There are many ways such enterprises can be made accountable. What you would need is an increasing capability for the public sector and the public in general to monitor them and also the ability of the community to provide inputs and maybe to sit on the board.

THIS is definitely a viable possibility. If the state has some equity stake, it can decide whom to appoint to the board. It doesn't have to be some politician who will get an honorarium and not do anything. I think alternative structures are very possible, especially in places where civil society is well organized. This is not the case throughout the Third World, but there are countries where there are reliable political structures.

AP: You've mentioned at various points in this conversation the diverse Asian experience, notably in the Philippines, your own country. Would you say there are insights from the Asian experiences, in all their plurality and diversity, that are important for either developed countries or developing countries elsewhere in the world?

MM: My reaction to that, and I hate to disappoint you, is that I am not sure Asia can teach other countries much except in the details. In the first place, there is very little intellectual work and debate in Asia about whether there is something special about Asia's strategies. Most of the debate on Asian economic strategies is happening elsewhere, not in Asia. In the second place, a lot of the Asian success rode on a very specific sector: the electronics industry. Asian authorities following the time-tested state policies of industrialized countries and not believing in the myths of neoliberalism, deployed the state to engage with this industry that emerged at that very specific time. Other countries could have done the same. Perhaps the cold war accommodation to Asian exports by the United States played some role in making Asia's entry into electronics easier.

While the state plays a major role in successful Asian countries, even between China and Korea there's a very big difference. Korea insisted on building its own private sector from the very start. China did not, except in a very implicit way, because officially state-owned enterprises were meant to be the dominant structure of its economic system. Korea has pursued a much more standard path to becoming an industrialized

country. In the case of China, will it be possible to create enterprises rapidly enough to provide international competitiveness?

AP: So it's not about the size of the state or its relative power, but about how smart and effective it is at promoting the right sorts of policies?

MM: Right. It is about states and international mechanisms being accountable to the parties that are most adversely affected by their actions. This, however, will require states being able to be less beholden to money politics—both nationally and internationally. Countries whose elites and officials have become dependent on money politics have been unable to undertake reforms and policies that ensure stable economic growth and development.