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International Affairs Forum Interview
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By Jason Miks

Martin Wolf is the Associate Editor and Chief Economics Commentator for the Financial Times where he writes a weekly column on the world economy and a fortnightly column on the UK. He is the author of the book "Why Globalization Works". He is also a Special Professor at the University of Nottingham School of Economics and a Visiting Fellow at the Nuffield College, University of Oxford.

Mr. Wolf was joint winner of the Wincott Foundation senior prize for excellence in financial journalism for 1989 and again for 1997. He also won the RTZ David Watt memorial prize for 1994. At the 2003 Business Journalist of the Year Awards, he won the Decade of Excellence Award.

He was Senior Economist in the World Bank's India Division between 1974 and 1977 and a member of the core team for the first World Development Report in 1977-78. Between 1979 and 1981, he was a Senior Economist in the World Bank's Division for International Trade. In 1981 Mr. Wolf joined the Trade Policy Research Centre, London, as Director of Studies. In 1987 he joined The Financial Times as Chief Economics Leader Writer. He was promoted Associate Editor in 1990 and Chief Economics Commentator in 1996.

Mr. Wolf was a member of the Council of the Royal Economic Society between 1991 and 1996, of the National Consumer Council between 1967 and 1973, and of the Awards Committee of the American Express Bank Review essay competition in memory of Robert Marjolin in 1994. Mr. Wolf served as adviser and rapporteur to the Eminent Persons Group on World Trade in 1990 and was principal author of its report, "Meeting the World Trade Deadline: Path to a Successful Uruguay Round". He was awarded the New Zealand 1990 Commemoration Medal for his work for the Group. Mr. Wolf is also a member of the Advisory Board on European Economic Integration at the Faculty of Economics at Erasmus University, Rotterdam. He has been a Forum Fellow at the annual meeting of the World Economic Forum, in Davos, since 1999.

International Affairs Forum: What do you think have been the strengths and weaknesses of the current US administration's economic policies?

Martin Wolf: I think the economic management of the United States has probably been one of the least bad aspects of the administration's policy making. Foreign policy has been such a catastrophe that it makes its economic policy look quite good.

I think the decision to go for the tax cuts at the time was, from a macro–economic point of view, quite desirable. The economy needed the stimulus at that point. The structure was extremely inegalitarian, of course and as a result the spending effects were probably smaller than they otherwise could have been. I am much less persuaded of the enormous efficiency gains of tax cuts, though I think there is an argument for the cut on dividend taxes as it reduces the double taxation of dividends otherwise inherent in the corporate tax system.

The administration has tried to liberalize trade, not very effectively, not very intelligently, but they're broadly on the right side of the argument, I think. The Democrats have been more protectionist. They [the administration] have tried to salvage the Doha round, and the former US trade representative Robert Zoellick was extremely effective. So I think they're right on trade.

This is slightly outside of the question, but I also think they made a mistake ignoring global warming – I've now concluded that this is a very serious issue for us. And they've also wasted a lot of time on a half baked plan on social security.

So I would give their record on economics a B+. There will have to be a closure of the American fiscal deficit, which I don't think that can occur entirely on the spending side. Actually, I should probably have mentioned that. The spending proposals they have allowed through, especially the prescription drug benefit, was a scandal. Not merely a scandal in terms of the aims, which I think are questionable, but also in the way it is structured. They are going to have to cut spending at some point, and they are certainly in my view going to have to raise taxes. The United States is very low-saving country and for the public sector to have a significant deficit as well at the peak of the cycle is undesirable. They should be in balance now. So as I say, a B+.

IA–Forum: The British economist Sir Nicholas Stern last month released a report that painted an extremely bleak picture of the impact of global warming. What did you make of the report?

Martin Wolf: I think the broad case is very difficult to argue with. I don't know how seriously one should take the precise numbers. But his conclusion is that the cost of global warming in the long run will far exceed the costs of doing something about it, though this is still controversial. He says the cost benefit analysis suggests that we should do something.

Now in drawing this conclusion he takes the specific view that we should be risk averse about extreme events, that the likelihood of extreme events is quite high if we continue on a business as usual path. He believes that the cost of those extreme events could be very large. In particular, scientists believe that if we do continue on a business as usual path, we might be by the next century seeing temperature increases of 5 – 10 degrees, which are comparable to the differences between the ice age and now.

The conclusion that he has drawn, which is think is just a common sense conclusion, is that this is a gigantic and irreversible experiment with the climate which our great grandchildren will have to live with, and provided the costs of alleviating the danger are not excessive, if the costs are as small as he suggests, we really are morally obliged, I think to halt it. I would think that, even if I didn't know precisely what economic costs are. We don't really have the right to inflict such a quick change on the planet without knowing the consequences. So I think in this broad sense the evidence he has put together is pretty convincing.

IA-Forum: China has said it intends to double aid to Africa and to double the number of goods that it imports from Africa that do not attract taxes. Do you feel that China's developing economic ties with Africa will be good fro the continent?

Martin Wolf: I think it is potentially positive, with substantial negative risks. It is potentially positive because trade should benefit both sides. It will certainly increase, and is increasing, demand for African commodities… and more demand should be helpful.

There are, however, two questions, one of which is unfortunately rather difficult to do anything about. The first is that China is rather formidable competition for Africa's very weak manufacturing sector and it will tend to undermine the competitiveness of African manufacturing. There is not much that they can do about that in the short run – it may take a generation or so.

The second problem, which I think is the deeper one, is that the Chinese are not concerned about governance in any way – about corruption, and much worse than corruption, brutality on a very large scale. African governments have tended to be poor in the past and often deeply corrupt. There's no value in having the Chinese buying more goods and giving them more money if the money will be wasted by terribly corrupt regimes. So I am worried about the impact on governance of China. They have supported some terrible regimes, such as Sudan and Zimbabwe – truly terrible and some of the worst regimes on earth. And so the impact of China in this respect, of subverting the post cold war attempt of the West to improve governance, is I think very disturbing.

IA-Forum: You were in one part of your book 'Why Globalization Works' critical of the World Bank. What future do you see for the organization?

Martin Wolf: I think the answer to that question is that the future of that organization is diminished, and for fairly good reasons. In a way it is diminished because of success. There are lots of countries that used to depend on the World Bank for access to capital. I used to work on India at the World Bank in the middle of the 1970s. India was entirely reliant on assistance for foreign capital and without that aid it wouldn't have been able to pay for its oil. It really would have been in terrible trouble without it. Today India can borrow all the money it wants. People are desperate to pour money in there. So all these countries that were completely dependent on their relationship with the World Bank now have access to foreign direct investment and all the know how and skills that brings. They are able to gain expertise from consultants of every kind.

So the role of the Bank as a unique repository of knowledge and unique supplier of capital – but that monopoly position as a lender has completely gone. And in my view that by and large is a product of genuinely successful development.

The Bank's role has therefore changed. I believe that the Bank essentially has two roles in the future. The first is in helping those countries that have not succeeded in becoming part of the modern world – predominantly African countries that are very dependent on aid, and a few countries in South America for example. There they have to provide assistance such as technical know-how and insist on reasonable governance. There they still have a substantial role. The second thing the Bank can be for some time still is a repository of knowledge, because of the vast range of experience it has had. In that context they can still play a useful role in providing longer term money than most of these countries can obtain in financial markets.

I would hope that over the next half century the Bank will simply whither away, because if it does, it would show that the reason for setting it up, which was to get development going, has been fulfilled. That would be a tremendous success.

IA-Forum: Anti-globalization protests seem to have died down, yet the Doha round of trade talks collapsed earlier this year. Do you believe that free-traders and supporters of globalization are winning the argument?

Martin Wolf: It is important to note that the Doha round collapsed because of the recalcitrance of developed countries, particularly Europe, over the liberalization of agriculture. I don't think Europe took that position because of any principled opposition to free trade; it was just that they have a particularly powerful lobby – especially in France – and they just couldn't reach an agreement. It's a scandal, but it is not in my view a reflection of any principled opposition.

I think as always the answer is a mixed one. I think in developing countries, with a few exceptions, particularly in Latin America, the extent to which the basic argument has been won is quite remarkable. I worked in India, as I said, and when I was doing so it was almost completely closed. There were incredibly high barriers to trade. Now Indian tariffs are still quite high, but they have liberalized unilaterally over the last 15 years and nobody in India really debates this issue any more. There are, of course, other concerns. Similarly, in China there doesn't seem to be any real issue at all. Even in Brazil it is not a huge issue.

So I think most developing countries have accepted the case for liberal trade. The real problems are in developed countries. They used to despise developing countries as backward – now they fear them as too competitive. In many developed countries there is a great deal of concern over the impact of developing competitors on wages, on employment. I mean it is not deep ideological opposition the way the anti-globalization protestors said it makes everybody worse off. And the problem doesn't come so much from business now. It comes instead from some of the workers who feel they are threatened, and some of the ideological old lefties.

But it is interesting that the American view on this and the French view aren't too different. So I think there is this traditional and completely understandable protectionist reaction to the profound and disruptive changes. It is genuinely understandable. And we now have to find policy ways of dealing with these changes.

IA-Forum: Thank you for this interview.

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