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Improving Rather than Abandoning Reforms

Anthony Boote

José Antonio Ocampo's chapter covers a lot of ground and therefore inevitably I have to be somewhat selective in my comments. I agree that a key task of the international community is to ensure that everyone benefits from globalisation rather than some groups being left out. I think, however, that the chapter is a little pessimistic on the impact of globalisation: following Sala-i-Martin,¹ and reflecting growth in China and India, over the last 30 years there has probably been an overall decrease in inequality. Similarly, there is some evidence that overall inequality fell in the most rapid periods of globalisation, i.e. late nineteenth and early twentieth century and post-second world war. There is strong evidence that trade liberalisation has helped growth and has not worsened inequality so it is unambiguously positive for poverty reduction.

This said, I accept the challenges outlined in the chapter. I agree that a better global order with promotion of global public goods is an important part of the appropriate response. The Fund has taken steps to improve global financial stability and to help countries limit the impact of financial volatility. In common with our colleagues in the World Bank, we have urged developed countries to remove trade barriers, to open their markets to exports and to eliminate agricultural subsidies. We have also taken steps to improve the financial architecture such as the work on standards and codes. A second area that is important in this context is governance, although this remains an ongoing

¹ Xavier Sala-i-Martin, "The Disturbing 'Rise' of World Income Inequality", NBER Working Paper 8904, April 2002.

challenge. We certainly have stressed the importance of improvements in the rule of law, accountability and efficiency of the public sector and of tackling corruption and we are prepared to offer advice, and technical assistance in that area.

Turning to what the chapter describes as three asymmetries, I would acknowledge that macroeconomic stability is an area where there is more discretion for developed countries to act than for developing countries in relation to international capital markets. We are working hard to help developing countries to have more scope for counter-cyclical macroeconomic policies. We are continuing to work on how we can help countries, including low-income countries, best respond to shocks. On technological transfers, there is considerable scope for both domestic policies and also for trade policies and foreign direct investment. Labour mobility is also a very important issue as the chapter acknowledges given the size of remittances to developing countries. However, the benefits from these remittances need to be weighed against costs in loss of educated and trained labour from the countries concerned: this is an area where the Bank has done considerable work.

On the challenges facing Latin America, I would suggest that there might be a consensus in the region that there is a need to improve and strengthen rather than abandon the current approach. There needs to be more emphasis on policies that reduce vulnerability, including an overall approach to try and reduce relatively high levels of debt in the region. In the fiscal area, the focus should be on broadening and making more uniform the tax base, with achievement of income distribution goals through the expenditure rather than the revenue side of the budget. Further trade liberalisation should be a priority: one diagnosis of the Latin American situation is that you have had relatively free financial markets without enough trade integration into the world economy. Policies are needed which promote both public and private investment in the region. Clearly there is some role here for public private partnerships but consistent with overall macroeconomic stability and the aim of reducing debt levels. There is also a need for legal and public administration reform. A particular challenge is to strengthen financial systems so that they can play a greater role in the financing of investment; this will involve steps that should reduce the large spreads in the banking system. I agree with the emphasis placed in the chapter on the need for improved prudential regulation particularly in the counter-cyclical context. Further progress on inflation-targeting regimes plus central banking independence remains important. Equally, there is a continued agenda of labour market reform and in

particular removing disincentives – both regulatory and taxation – to employment in the formal sector.

Finally, I agree with José Antonio Ocampo's emphasis on the importance of domestic ownership of policy choices. We have adopted a whole new approach to lending to low-income countries by the Bretton Woods institutions, based on ownership of poverty reduction strategies produced within countries. I think there is widespread recognition throughout our activities that there are no single solutions coming from Washington and that what matters is that countries adopt programmes and policies which deal with the problems they face in a way that they believe in.