The Trouble With Larry

"Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs [least developed countries]?"

So wrote new U.S. Treasury Secretary Lawrence Summers, then the chief economist at the World Bank, in an infamous 1991 World Bank internal memorandum arguing for the transfer of waste and dirty industries from industrialized to developing countries.

There's more: "I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that. ... I've always thought that underpopulated countries in Africa are vastly underpolluted; their air quality is vastly inefficiently low compared to Los Angeles or Mexico City."

After the memo was leaked, Summers apologized, saying it was intended to be ironic and that it was offered as a thought experiment. Later reports suggest that someone else actually wrote the memo, although Summers' name appeared on it. At *Multinational Monitor*, the memo gave rise to the Lawrence Summers Memorial Award.

But here is the question that remains unanswered, and that should have been atop the list of questions posed by the senators who had to confirm Summers' appointment to replace outgoing Treasury Secretary Robert Rubin: "Ironic or not, from your point of view, what was wrong with the logic of the memo?"

The notion that poor countries should import pollution and waste is just an unsavory application of the economic theory of the U.S. Treasury Department, shared also by the International Monetary Fund (IMF) and, to a lesser extent, the World Bank.

In this worldview, poor countries should exploit their "comparative advantage" of low wages, or access to natural resources, or lower environmental standards.

While few countries have "developed" with this approach, it has proved very effective for companies like Nike, which has taken advantage of low wages throughout Asia, or even GM, which produces cars and trucks in Mexico with the same technology as in Michigan but with lower-wage workers. Makers of polluting technologies such as incinerators that are being phased out in industrialized countries have also benefited, because they are able to stay in business by selling to Third World countries. U.S. manufacturers that wanted to escape environmental regulations (like furniture makers who use toxic glues, solvents and paints) have capitalized by shifting from places like Los Angeles to Mexico. For a time, per Summers' suggestion, there was a thriving international trade in toxic waste, but that has largely been eradicated, thanks to environmental activists who helped get enacted a global treaty to ban hazardous waste exports from rich to poor countries (the United States has not signed).

At the heart of the Treasury-IMF-Bank approach is the idea that developing countries should concentrate their effort on exports, rather than production for local needs. A related core idea is that countries should allow foreign capital to move into and out of the country without restraint.

Those two policy prescriptions contributed in significant measure to the Asian economic crisis, which was precipitated by a sudden withdrawal of foreign capital from Asian markets, itself a result in part of over-investment in production for export.

The solution of Summers, Rubin and Federal Reserve Chair Alan Greenspan (anointed the "Committee to Save the World" by Time Magazine) was for Asian countries to do more of the same (while making some internal financial reforms and shutting down or selling off bankrupt enterprises). Again, multinational corporations and foreign investors are doing well. U.S. firms like Fairchild Semiconductors, Hartford Life and GE Capital, for example, have made unprecedented purchases of Korean assets.

The overall result of the Committee's global financial crisis management, according to most news accounts including the many beatifying Rubin following his retirement announcement, has been a calming of the economic waters. In fact, while stock prices are now rising in the Asian countries, so is unemployment and poverty.

Unemployment in South Korea rose from 2.6 percent to more than 8 percent and climbing. More is coming, according to IMF projections.

Indonesia's economy shrunk by 15 percent in 1998. More than a half million Indonesian children have died from malnutrition since the crisis began. The country's poverty rate has soared to at least 40 percent.

There is, too, massive environmental destruction stemming from the crisis — a bleak fulfillment of sorts of the Summers memo's prescription. In Thailand, for example, devaluation and the export emphasis has led to more agricultural exports and the expansion of shrimp farming, which the Asian Development Bank says is causing "destruction of wetlands and increased salinity of rice lands." Illegal logging is leading to further erosion and deforestation.

The trouble with Larry Summers and his memo is not that it was an aberration stemming from a lapse of good judgment. The trouble is that it wasn't. ■