

### **Interview Of Jeffrey Frankel On Growth**

Jeffrey A. Frankel is James W. Harpel Professor of Capital Formation and Growth. Serving on President Clinton's Council of Economic Advisers from 1996 to 1999, his responsibilities included international economics, macroeconomics, and the environment. Before moving to Harvard in 1999, he was Professor of Economics at the University of California at Berkeley, having joined the faculty in 1979.

#### **PREM NEWS: What lessons can we learn in term of growth from the United States?**

MR. FRANKEL: There are many different lessons to draw. Some of them involve repeating the things the US did right, and others involve learning from our mistakes. Perhaps, I could focus on one specific lesson; that is the benefits of long-run fiscal responsibility, which requires taking advantage of times when the economy is doing pretty well to eliminate a budget deficit and, if possible, to run a budget surplus, rather than waiting until things go bad. What happens all too often is that it's only when the economy goes into recession or financial crisis that policy makers are forced to cut the budget sharply, which exacerbates the downturn. So, the benefits are in a countercyclical fiscal policy as opposed to what too many countries have, which is a procyclical fiscal policy.

#### **PREM NEWS: What do you think of the skepticism about the developing world's ability to have sustained growth?**

MR. FRANKEL: The last seven years have not been very good for most of the developing world. However, middle-income countries and emerging market countries will probably do better in coming years. I believe that there will be a return of investment to the developing world because international investors will perhaps look around and see that Japan is still not a good place to put their money, neither is Europe, and the U.S. is increasingly going to have problems coming out of its deficits.

But where in the developing world can they invest? East Asia certainly, although perhaps the current SARS epidemic will put a road block in that. Latin America will grow, although Brazil and Argentina have had recent crises despite having opposite exchange rate regimes. Africa has been the most discouraging in terms of progress on development, but I see some signs of hope if the desirable policies and right growth factors are in place.

**PREM NEWS: How will the new trade resolution affect growth in poor countries?**

MR. FRANKEL: The Doha Round of trade negotiations was supposed to be a Development Round. In the past, the developing world did not really have much voice. Mostly they were basically given a fait accompli. The U.S. and the EU came to an agreement and presented it to the rest of the world, saying: are you in or are you out? The rest of the world has had to go along, and in the case of the Uruguay Round, developing countries even agreed to some things they didn't quite realize they were agreeing to, like on intellectual property rights.

Giving voice to the developing world is very important. The developing world, provided it gets its act together, can have a powerful voice in trade negotiations from now on. I personally don't see how we could put together a successful round of trade negotiations that did not have some substantial benefit for developing countries. Developing countries have a right to expect major progress and the power to insist, provided they get together and speak with a more unified voice.