

WORLD TRADE DEFENDER

Bob Simison profiles **Anne O. Krueger**, whose research helped build the global trading system that's now under attack

Former US President Donald Trump was fighting a multibillion-dollar trade war with China, and economist Anne Krueger decided to take a stand. Over a career spanning more than six decades, Krueger's groundbreaking research in India, South Korea, and Türkiye

had profoundly altered policymakers' thinking on the importance of trade in improving the lives of millions of people. Now all of that was under attack.

Krueger's response to Trump was a 300-page book published in 2020, *International Trade: What Everyone Needs to Know*, a cogent argument



PHOTO: IMF/JOSHUA ROBERTS

showing how world trade benefits billions of people and has lifted millions out of poverty. “Protection does not create jobs,” she wrote. “Trade destroys many fewer than is popularly believed... Should the trade war continue, the economic damage to the entire world will increase.”

Today, at the age of 89, the Johns Hopkins economics professor continues to push back forcefully against the tide of protectionism that’s sweeping the world. She keeps a full schedule of speaking engagements and writes a monthly column for the respected international online forum Project Syndicate. Recent titles include “America’s Industrial Policy Is Counterproductive,” “Multilateralism Is Still Better,” and “Sleepwalking into a Global Trade War.”

“It’s discouraging,” she says. “Things will show up soon as mistakes. [US President Joe] Biden is an internationalist, but the Biden administration has turned highly protectionist. It will hurt the US and the rest of the world.”

That’s not a popular position. Job losses in developed economies that were attributed to globalization spurred decades of protests. China’s rise as an export power raised national security concerns. And disruptions during the pandemic inspired a move to replace global supply chains with regional trading blocs and “friend-shoring.”

But Krueger has never been one to go along with conventional wisdom. In the 1960s it was generally accepted that developing economies needed to protect domestic businesses through currency exchange controls and import curbs. Data she collected directly from companies in Türkiye showed that such policies instead hobbled growth. Her subsequent research turned development theories on their head.

Krueger was the IMF’s No. 2 official during 2001–06 and chief economist of the World Bank 20 years earlier. She trained generations of economists at the University of Minnesota, Duke, Stanford, Johns Hopkins, and elsewhere. Of her dozens of books and research papers, one was listed among the top 20 articles in the first century of the influential *American Economic Review*, published by the American Economic Association, which Krueger headed in 1996. Other economists have long nominated her for the Nobel Prize for the sweeping impact of her findings on trade.

“Anne Krueger is an absolutely transformative figure,” says former US Secretary of State Condoleezza Rice. The two became professional

colleagues, personal friends, and golfing buddies in the 1990s when Rice, a political economist, was provost at Stanford and Krueger ran an economic research institute she founded there. “Anne could get things done. She is a top academic who has the rare ability to reach from the academy to policymaking. She is incredibly highly regarded among economists.”

Accidental economist

By her own account, Krueger became an economist by accident. After growing up all over western New York state, she did her undergraduate studies at Oberlin College in Ohio. Her focus was prelaw, and she declared economics as a major only in her senior year. She took classes in economics “because I thought one had to understand economics in order to understand law and politics,” she wrote in an autobiographical sketch in a 2014 book on eminent economists. But there was no money for law school. Then she won a graduate fellowship in economics at the University of Wisconsin. “So economics it was,” she wrote.

After completing her doctorate in 1958 at Wisconsin, Krueger became an economics professor at Minnesota, a position she held until departing for the World Bank in 1982. In the 1950s and 1960s, she later wrote, economists thought that free trade would be bad for developing economies because they couldn’t compete in export markets. So governments should protect domestic industries from import competition and should directly invest in or at least subsidize manufacturing at home.

“We all like to see people better off and try to help the poor,” Krueger says today. Protectionist policies intended to do that just didn’t work. Since India and China opened up to international trade, poverty has plunged globally, she observes.

On assignment for the US Agency for International Development in 1965 in Türkiye, she spoke with dozens of businessmen and showed how such policies actually led to smuggling and rampant waste. This included “the ‘exportation’ of shiploads of stones, which were then dumped overboard (to collect export subsidies), the misgrading of commodities such as tobacco (tobacco inspectors were bribed by farmers to overstate the quality of tobacco), [and] the wasteful stockpiling of spare parts and even entire machines” to evade import controls, she wrote.

Krueger later studied more than 50 auto parts suppliers in 1968 in India. Some of them gave her data from “the three sets of books they kept — that for the taxman, that for the public, and that for purposes of management,” she wrote. Her findings on how businesses in Türkiye and India responded to protectionist economic policies led her to write a landmark paper, “The Political Economy of the Rent-Seeking Society,” published in 1974 in the *American Economic Review*.

In the paper she documented the costs to public welfare of policies such as trade restrictions and import licenses that encourage some market participants to try to cash in or collect what economists call “rents.” In declaring it one of the 20 most significant articles published in the 100 years through 2010, the *Review* credited the paper with helping to launch “a voluminous literature on the role of corruption and governance in the process of economic development.”

“By identifying the importance of rent-seeking activities and providing a framework for analyzing their welfare costs, this paper expanded the economic analysis of the government’s choice of policy instrument,” according to the *Review*. Other economists whose work made the top-20 list include Nobel laureates Milton Friedman, Joseph Stiglitz, Paul Krugman, and Robert Shiller.

Together with the prominent economist Jagdish Bhagwati, of the Massachusetts Institute of Technology and later Columbia University, Krueger organized a series of conferences and studies in the 1970s focusing on trade policies in 10 developing economies. The project resulted in a volume on each country and two overview books, one by Bhagwati and one by Krueger.

“To the great surprise of participants, and even somewhat to ourselves, many of the same phenomena were reported across the 10 countries covered in the project,” Krueger wrote. The costs of restrictive import policies outweighed the benefits, the research showed. “Since the 1980s, most developing countries have removed most of their quantitative restrictions, moved to more realistic exchange rates, and greatly lowered their tariffs.”

Upending policy views

“She showed the distortions and welfare costs of specific policies, combining real-world experience with a theoretical basis,” says Dartmouth

economist Douglas A. Irwin. The findings changed economists’ and policymakers’ views on trade policy, he says.

A case in point is South Korea, whose trade policies in the 1950s hobbled growth. Once the government introduced more open trading systems, the economy took off, benefiting millions of people, Krueger wrote. The results of the changes in South Korea and of similar moves in Türkiye and India convinced her of the broad benefits of open trade policies.

“In my view, economic growth also generates the resources with which societal problems such as those with the environment can be more effectively tackled,” Krueger wrote. “In addition, as people escape from poverty, their demands for a better environment and other public goods also increase, thus enabling the government to address these issues more readily.”

“She changed thinking in developing economies, which led to more free trade and growth,” says Columbia economist Arvind Panagariya, a leading expert on trade. “She has had a very big influence on outcomes in the world and a tremendous impact on the lives of millions of people who were lifted out of poverty.”

As chief economist of the World Bank during 1982–86, Krueger helped bring the global poverty-fighting institution’s policies more in line with her research findings. In the bank’s 1983 annual report, she recalls, she succeeded in getting the organization out of the business of lending for government-owned tourism facilities and moved it to discriminate less against investing in agriculture.

In 2003, when she was the first deputy managing director of the IMF, Krueger had to fill the vacancy of chief economist. She turned to Raghuram Rajan, whom she had known for a few years.

“I said I didn’t know macroeconomics,” Rajan says. “She said, ‘Neither do I.’” Facetiously, of course. In the wake of the Asian financial crisis of the late 1990s, Krueger saw the need for the IMF to beef up its understanding of the financial industry and its impact on economies. Finance is Rajan’s area of expertise.

“The financial sector can get things very wrong,” Rajan says. “When there is a crisis, it forces governments to bail out the financial sector, putting pressure on national finances.” As chief economist under Krueger, Rajan expanded the IMF’s ability to evaluate the stability of countries’

banking industries. He later served as governor of India's central bank and today is a professor of finance at the University of Chicago's Booth School of Business.

Tackling debt crises

One of her most important achievements at the IMF was the development of a proposal for a sovereign debt restructuring mechanism, known as the "SDRM." Krueger's SDRM plan was killed for political reasons. But the problem of developing economies' inability to repay their debt hasn't gone away over the past two decades, and the lack of such a bankruptcy reorganization system for national debt does affect millions of people.

"The world's poor should not have to pay the price for disagreements among the world's largest creditors," Krueger wrote in her April 2023 Project Syndicate column. She cited the debt crisis that hit Sri Lanka a year ago. Because the government couldn't obtain debt relief, it couldn't purchase life-saving supplies of food, fuel, medicines, and other necessities, she wrote. "The international community's process for responding to sovereign-debt emergencies urgently needs to be improved."

Krueger proposed that the IMF play a central role in helping cash-strapped debtor nations work out restructuring plans that would be equitable for creditors, including private financial institutions. The SDRM would include features of corporate bankruptcy reorganizations such as protection from creditor lawsuits. It would require construction of an international legal framework to enable a majority of creditors to make binding decisions for all creditors, eliminating the problem of holdouts.

In her April 2023 column, Krueger observed that China accounts for almost half of all lending to poor countries and that its "refusal to take the same haircut as other creditors" poses a giant stumbling block to resolving crises such as the one in Sri Lanka.

Ultimately, the proposal couldn't overcome opposition from the US, the UK, and the Group of Seven. "People didn't like the idea that an unelected international organization [the IMF] could interfere with contract rights and lead to the write-down of loans," says Matthew Fisher, who was a top Krueger aide on the project.

Instead, the international community adopted a proposal that had been floating around since the

1990s to include collective action clauses in government bonds. The provisions outline a mechanism for a majority of bondholders to make decisions applying to all.

"We wouldn't have even that if Anne hadn't pushed for the SDRM," says Rhoda Weeks-Brown, the IMF's general counsel today. She worked on the project with Krueger as a junior member of the legal department. "It was a very unusual and courageous thing for the IMF to do, and she had the vision and the leadership to take it on."

Krueger maintains that the SDRM still "has to go into effect someday," a position that some of her colleagues also take. "It died a political death, but not an intellectual death," says Sean Hagan, a Georgetown law professor who was in the IMF legal department at the time and later served as the fund's general counsel.

"Governments get into trouble because of poor policies," Krueger says. "We need someone like the IMF to look at policies and flag those that need to be changed."

'Force of nature'

In her profession, Krueger has attained the status of icon, a brilliant "force of nature" and "tough cookie," as some colleagues put it. As influential as her work has been, there is another dimension that she doesn't like to discuss.

"She broke through various ceilings as a woman, which was an enormous contribution," Chicago Booth's Rajan says. "But she is so competent that nobody could say she was there because she was a woman. She was there because she is bloody competent. She conducted herself in an extremely impressive way and never talked about it. She made it easier for others."

Krueger served as a personal inspiration and role model, Weeks-Brown says. "She was a woman in that role, and it was a big deal in those days, and it's part of her legacy. She was the first female first deputy managing director of the IMF. Women saw her as a role model because of her prescience, her forcefulness, and her effectiveness."

For her part, Krueger says she just wants to be known as an economist. **FD**

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