

ON GLOBALIZATION AND ITS DISCONTENTS

Three Recent Books on the Failings of Globalism

Reviewed by Rafi Rom

Globalization and Its Discontents

Joseph E. Stiglitz

W.W. Norton/2002/\$24.95

282 pp.

George Soros on Globalization

George Soros

Public Affairs/2002/\$20

191 pp.

The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics

William Easterly

MIT Press/2001/\$17.95

356 pp.

During his trip to Ethiopia in March of 1997, the Nobel Prize-winning economist Joseph Stiglitz first noticed the gap between the mandate of the International Monetary Fund (IMF) and its practices. To Stiglitz, at the time chief economist for the World Bank, Ethiopia was a model developing country. "Not only did Ethiopia have a sound macro-economic framework but the World Bank had direct evidence of the competence of the government and its commitment to the poor." Yet the IMF, citing trumped up worries about Ethiopia's "budgetary position" (their concern was the nation's conventional reliance on international assistance), suspended its aid program, putting the people already worn down from decades of famine and political turmoil in great jeopardy. To make matters worse, one of the IMF's stipulations to reinstate the loans was for Ethiopia to "liberalize" its small and very primitive banking system by dividing the nation's largest bank into even tinier pieces, making any competition between Ethiopia's bank network and major international banks nearly impossible. At this point, Stiglitz and other World Bankers intervened, and pressed the IMF to restore the assistance and drop its demands. "I would like to think that my efforts helped Ethiopia," he writes.

In *Globalization and Its Discontents*, Stiglitz uses similar examples (although not always with such self-aggrandizing happy endings) as a powerful indictment of IMF

policies gone rancid. “Founded on the belief that markets often worked badly,” he writes, the IMF “now champions market supremacy with ideological fervor.” He explains economic policies toward various countries in Africa, Latin America, and East Asia. The source of their problems is the same, whether he’s analyzing Morocco’s struggling farming communities or Russia’s catastrophic transition to capitalism: the IMF. And in the middle of his economic tour of the globe, Stiglitz also endorses elements of the counter-globalization movement. He even offers some feasible policy changes.

Drawing from his years at the World Bank and the White House during the Clinton administration, Stiglitz lambasts what he calls “the Washington Consensus”—the political and business elite crafting policies in developed nations that disproportionately affect developing ones. The IMF, along with the U.S. Treasury Department, currently led by Paul O’Neill, takes most of the heat for what Stiglitz sees as a blind acceptance of free markets. He contends that their policies of speedy privatization and liberalization fail to take into account any of the nuances of economic theory developed over the last few decades, and do nothing to improve the standing of the 2.8 billion people (45 percent of the world’s population) who live on less than two

Stiglitz contends that IMF policies of speedy privatization and liberalization fail to take into account any of the nuances of economic theory developed over the last few decades, and does nothing to improve the standing of the 2.8 billion people (45 percent of the world’s population) who live on less than two dollars a day.

dollars a day. Instead, all the Washington Consensus does is push its rampant liberalization long before countries establish a stable market economy, a widely accepted prerequisite for “free trade policies” to have any success.

Stiglitz dedicates three chapters of his book to two of the biggest economic failures of the last decade: East Asia and Russia. He blames Thailand’s and other East Asian countries’ losses of billions of dollars in capital outflows during those three turbulent years of the Asian financial crisis on the Washington Consensus’s premature push for liberalizing the financial or capital markets. After 30 years of stable growth, “capital market liberalization made the developing countries subject to both the rational and irrational whims of the investor community.” When assistance to East Asian countries did arrive from the IMF, the loans, strapped with stringent conditions, essentially bailed out foreign investors who immediately pulled out after receiving payment.

Ironically, as Stiglitz puts it, the incredible number of stringent policies forced on Russia by the Washington Consensus led to Russia’s economic downfall. By pushing for



Joseph Stiglitz writes the IMF today has not justified its “existence.” Above, the International Monetary Fund executive board. Courtesy of the International Monetary Fund

rampant liberalization in Russia before it could even be called a market economy, the major international economic players severely hampered Russia’s transition to capitalism. This is not surprising, since one World Bank survey of transitional economies (like Russia and the other Soviet republics) found “that privatization, in the absence of the institutional infrastructure (like corporate governance), had no positive effect on growth.” By the numbers, the IMF’s version of capitalism worsened Russia’s economic stance. Russia’s GDP in 2000 is two thirds less than it was in 1989. Using the already low two-dollar-a-day standard, 23.8 percent of Russia lived in poverty in 1998, compared to only 2 percent in 1989. The only ones who benefited were the elites who had power under the former regime and siphoned money from the IMF in the incredibly corrupt environment that market liberalization fostered. Stiglitz, horrified, tells his readers how one IMF employee called Russia’s economic transition a success because of BMW traffic jams and designer clothes stores—failing to see that the majority of the society did not even have the bare essentials. For Stiglitz, the lesson learned from what he slyly calls “the Bolshevik approach to market reform” is that radical market restructuring without change in social hierarchies simply made matters even worse.

A large portion of *Globalization and Its Discontents* examines solutions to the free market debacle the Washington Consensus has perpetuated. All of Stiglitz’s proposed reforms “to make globalization work” require a change of governance, like voting rights and more transparency for policy decisions. The IMF specifically “needs to return to its original mandate of providing funds to restore aggregate demand in countries facing an economic recession.” Among other things, he calls for debt forgiveness and smarter aid policies. One alternative he mentions is the use of SDRs—Special Drawing Rights—to fund global public goods. SDRs are a unique form of currency issued solely by the IMF that gain value according to the fluctuating prices of the four major currencies: the U.S. dollar, the pound, the yen, and the euro.

This alternative is the heart of the more informal book, *George Soros on Globalization*, which argues that SDRs could help bolster the public goods market,

such as labor standards, or medical infrastructures that are often pushed to the side in the zealous quest for wealth. Soros does not see imposing more regulations as the answer to environmental, labor, and human rights problems, because it would be impossible for developing countries to compete at the international level with more regulations, yet with no additional money. By contrast, Soros writes, “it would be much better to provide resources that would enable poor countries to comply with those requirements on a voluntary basis.”

This proposal draws its weight from the example Soros himself set with his mammoth NGO, the Open Society Institute (OSI), which Soros personally funds with over 400 million dollars a year. OSI offers grants for NGOs and individuals in both developed and developing countries in the hopes of fostering more “open societies” around the globe. To issue SDRs, Soros proposes the creation of an independent subsidiary of the IMF (because only the IMF, with 85 percent backing of its member countries, can issue SDRs) to dole out this funding in a “market-like” environment between donors and patrons. Soros cleverly contends that by allowing NGOs to compete in a market-like fashion (where achievement and not profit growth is the quantitative factor), public goods programs will reach new levels of success.

Although his SDR proposal is thought provoking, the rest of *On Globalization* usually overlaps with Stiglitz’s book, which does a clearer job of explaining economic principles. *Globalization and Its Discontents*, however, also has its flaws. For one, the World Bank comes away from this whole free market mess virtually uncriticized. Nearly every time he mentions the bank (which, unlike the IMF, claims its mandate is to bring about “a world free of poverty”), he praises some study it published that proved IMF policies wrong, or success stories of how its packages helped a developed country.

Several experts have criticized Stiglitz’s selective memory. William Easterly’s *Elusive Quest for Growth* was published last year by MIT Press. Easterly, Senior Advisor of the World Bank’s Development Research Group, may be a former colleague of Stiglitz, but his focus is vastly different.

Easterly’s method differs significantly from Stiglitz’s. It is both more and less ambitious in scope. He takes a humbler tone in charting the history of economic policies of International Financial Institutions (IFIs)—specifically the World Bank—in promoting growth. Gone are the dramatic (but nonetheless very appealing) accusations of a self-proclaimed fly on the wall. Instead, he picks apart trends in growth theory during the last few decades. Like Stiglitz, he analyzes adjustment loans. To avert a growth collapse in the 1990s, “we thought we had a good solution: aid and lending in developing countries conditional on their making policy reforms.”

Reading *Globalization and Its Discontents* often gives the reader the impression that the IMF acted largely alone in distributing structural adjustment loans, a practice Stiglitz decries. Yet in Easterly’s book, the IMF is rarely mentioned without the World Bank. Throughout the 1980s and 1990s, the sister institutions both made hundreds of loans. In the case of Africa, where each country received an average of six adjustment loans (it reached as high as 19 in Ghana) Easterly points out that World Bank predictions of the success of these programs were grossly overestimated.

“Twelve countries received fifteen or more World Bank and IMF adjustment loans over the fifteen-year period 1980 to 1994. . . . The median per capita growth rate for those twelve countries over that period was zero.”

Easterly differs from Stiglitz on many other issues as well. For instance, Stiglitz sees debt forgiveness as a positive step, whereas Easterly argues it is yet another misplaced effort for propelling growth. In the end, despite his shortcomings, Stiglitz’s argument is stronger. Although Easterly often is more thought provoking, his approach toward addressing the ills of capitalism through the lens of “growth” is seriously limited, which often leads to some questionable arguments. For instance, Easterly debunks the traditional belief that education leads to growth.

His viewpoint reaches a level of near blindness in his most aggravating chapter, “Cash for Condoms,” where he rejects the use of contraceptives in the context of population control to promote growth:

All of this focus on aid for contraceptives implies that the free market left to itself would not supply enough contraceptives to meet demand. The “150 million couples” who “still have an unmet need for contraception” would stop having babies if only aid-financed condoms were available to them. But a condom is just like any other good that the free market can supply, like a can of Coco-Cola. We don’t have any aid programs to 150 million couples who have an unmet need for Coca-Cola.

Easterly then “begs the question of how free markets fail to supply a cheap good that should be in hot demand if 150 million couples have an unmet need for contraception.” And once one puts his argument in the context of other pressing factors, such as the AIDS crisis, his statements reach new levels of what he accuses his opponents of: “a splendid bit of illogic.” How, in a chapter on population growth and control, can anyone not mention the fact that some countries, like South Africa, have populations where one quarter of the adults are HIV positive? That the rapid spread of HIV in developing countries—proven by countless governmental, nongovernmental, and UN studies to be effectively containable through access to contraceptives and education—would have anything but a catastrophic impact on growth is unimaginable.

In *Globalization and Its Discontents*, Stiglitz’s depiction of the IMF as a benevolent but flawed institution raises important questions about responsibility and accountability of international organizations. This is now more relevant than ever because of the rash of first-world corrupt capitalists destabilizing the market. Even after Stiglitz writes, “today’s IMF has, in my judgment, not articulated a coherent theory of market failure that would justify its own existence,” he shrugs off these actions simply as benevolence gone awry:

The IMF never wanted to harm the poor and believed that the policies it advocated would eventually benefit them; it believed in trickle-down economics and, again, did not want to look too closely at evidence that might suggest otherwise. It believed that the discipline of the markets would help poor countries grow, and

therefore it believed that keeping in good stead with capital markets was the first order of importance.

But if you were to believe Stiglitz's initial proposition that these policies have *consistently* been proved wrong both in theory and in practice, it really raises doubts about whether these supposedly smart policy-making elites "had no idea" that what they were doing was morally wrong and perhaps even illegal. Time after time, he demonstrates how influential politicians, corporate executives, and economists push for plans purely for "special interests." For instance, Treasury Secretary Paul O'Neill lobbied for a global aluminum cartel while he headed Alcoa, even though such an alliance violates all domestic U.S. antitrust laws. And does it even matter what the declared "intent" of someone is when their actions cause widespread systematic harm, as Stiglitz demonstrates the IMF did across the globe? Further, the "intent" of an institution whose actions cause systematic harm, seems irrelevant.

Many recent articles about Joseph Stiglitz label him as a leading spokesperson for what has been unfairly dubbed by the media, intellectuals, and politicians alike as the "antiglobalization" movement. He certainly is not. (His "forced" removal from his position at the World Bank does not make him any more antiestablishment.) He has massive credibility among the political and economic elite in Washington, even if he consistently derides them. Stiglitz, despite his criticism of his friends at the White House and the IMF, still has faith in the current power structure, albeit, after a few changes to make it more accountable. Although his lucid analyses of the last two decades of economic policy conveniently prove the point of many protesters, a large portion of this movement believes that even if rational policies, such as the ones Stiglitz proposes, exist, they will never be implemented by the political elite that Stiglitz himself belongs to.

Globalization and Its Discontents should be required reading for all those who think they are being clever in dismissing criticism from protesters of globalization as offering no pragmatic alternatives—because he offers plenty of them, from strengthening international bankruptcy policies to improving safety nets for unemployment.

The same goes for the protesters as well. Stiglitz has a knack for explaining complex economic principles without patronizing his readers. The demonstrators across the globe who protest the IMF, World Bank, or World Trade Organization without knowing the significant differences between these entities or the policies that they hope to implement, could use a little of the knowledge offered in this concise book. *Globalization and Its Discontents* will arm any person who yearns for some sort of "better world" with the ammunition necessary for a more serious debate.

Rafi Rom is a student at Bard College.