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## GLOBALIZATION AND ITS DISCONTENTS

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## GLOBALIZATION AND ITS DISCONTENTS

(Reviewed by Dr. Qadar Bakhsh Baloch\* & Maria Inam\*)

Author: Joseph Stiglitz

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### **Introduction:**

The book under review is written by an eminent economist, Joseph E. Stiglitz, 2001 Nobel laureate, who takes on globalization's advocates, disarming them with his logic and killing them with his compassion. *His books include The Roaring Nineties and Globalization and Its Discontents. Globalization and its Discontents* is not a critique of globalization as its name implies, it is rather a critique of the International Monetary Fund ("IMF") and other agencies of international financial governance - principally the World Bank and the U.S. Treasury. Stiglitz who has been; chairman of the Council of Economic Advisers under Bill Clinton from 1993 and Chief Economist at the World Bank from 1997, became disillusioned with the IMF and other international institutions, which he came to believe, acted against the interests of poverty ridden developing countries and sums up his personal experience in the book *Globalization and its Discontents*. He refers globalization as

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the “*closer integration of the countries and people of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and to a lesser extent people across borders.*”<sup>1</sup> However, the author criticizes efficacy of the globalization, “in too many instances, the benefits of globalization have been less than its advocates claim, the price paid has been greater, as the environment has been destroyed, as political processes have been corrupted, and as the rapid pace of change has not allowed countries time for cultural adaptation. The crises that have brought in their wake massive unemployment have, in turn, been followed by longer term problems of social dissolution -- from urban violence in Latin America to ethnic conflicts in other parts of the world, such as Indonesia.”

It was the firsthand experience of Stiglitz as Chairman Council of Economic Advisers and Chief Economist of the World Bank that introduced him to the devastating effects that globalization can have on developing countries, and especially the poor within those countries. However, he believes that globalization can be a force for good and that it has the potential to enrich everyone in the world, especially the poor. But he also believes that if this is to be the case, the way globalization has been managed so far then it needs to be radically rethought. The book is a good source of soul searching to answer certain questions like: Why has globalization- a force that has brought so much good-become so controversial? <sup>2</sup> Why has the globalization become a pressing issue of our time? <sup>3</sup> Why the conservative s like Jacques Chirac (France’s President) has expressed concerns that globalization has failed to deliver promised benefits to those in need. <sup>4</sup> Are the institutional powerhouses

like IMF, WTO, World Bank (*global governance without global government*) are really doing what they set out to do when they were founded?<sup>5</sup> *Globalization and its Discontents* is an in-depth, concise, relentless, and thought provoking indictment of the global economic policies of the IMF, WTO and World Bank. However; IMF is singled out for most of the blame: flawed economic theories, lack of transparency and accountability to the public, and the pursuit of special corporate interests, therefore the book might well have been subtitled “*And How the IMF Got It Wrong at Every Turn*”. Recognizing the widespread benefits of globalization from the outset, Stiglitz nevertheless emphasizes the very real defects - and why these defects hurt vast numbers of people, and generate protests and opposition that could threaten to end globalization and all its benefits - something that occurred during the previous globalization period a century ago.

## REVIEW

The book *Globalization and Its Discontents* comprised of nine chapters highlights the imbalances created by the policies of international financial institutions led by the first world and the implications those imbalances brought on developing countries. Using the economic crises in Asia and Russia of 1990's as his case studies, he carefully describes the actions that led to the collapse of those economies. At the end he proposes a well-thought out list of reforms for the IMF, World Bank and international financial system.

The book can be divided in to three distinct parts. In part one, first three chapters describe the developments of international finance institutions such as the World Bank, the IMF, and the WTO. While

denying his opposition to globalization *per se*, Stiglitz admits that "Globalization itself is neither good nor bad. It has the *power* to do enormous good."<sup>6</sup> However, he believes that owing to inbuilt structural faults its track record is one of limited success. He argues that "a world government, accountable to the people of every country" is needed "to oversee the globalization process" and to limit the power of financial institutions over the global economy.<sup>7</sup> Criticizing lack of openness and transparency in IMF and the World Bank he opines "Today, in spite of the repeated discussions of transparency, the IMF still does not formally recognize the citizen's basic 'right to know': there is no Freedom of Information Act to which an American, or a citizen of any other country, can appeal."<sup>8</sup>

Part two with chapters 4, 5, and 6 presents detailed case studies of the economic crises in Asia and Russia that roiled global markets in the 1990's and Stiglitz calls it as "the greatest economic crisis since the Great Depression—one that would spread from Asia to Russia and Latin America and threaten the entire world."<sup>9</sup> He makes IMF policies responsible for the downturns.<sup>10</sup> In the case of Russia, he argues that IMF policy was controlled by a desire to bolster the administration of Boris Yeltsin. As Yeltsin's problems, and those of the Russian economy, mounted, he describes reactions within the IMF and the U.S. Treasury as "not unlike those of officials earlier inside the U.S. government as the failures of the Vietnam War became clearer: to ignore the facts, to deny the reality, to suppress the discussion, to throw more and more good money after bad."<sup>11</sup>

The final part comprises of the last three chapters of the book contains proposals to reform the system to prevent, or at least minimize, repetition of such economic crises in future. The leading ones amongst

these reforms are the need for better governance of international financial institutions and greater openness and transparency in their decision-making, and introduction of safety nets for the poor. He also advocates for the balanced trade policy to help reduce economic inequality, forgiveness of the debt burdens and additional economic assistance to poor economies to grow smoothly.

### **Role of IMF -Growing Divide between the Rich and the Poor**

The disintegration of Communist economic system and the capitalists' dominance brought great hopes for the welfare of the 3/4<sup>th</sup> of the humanity- crawling in poverty in and around the 3<sup>rd</sup> world, but the reality has been far crueler. Poverty has increased. The global distribution of wealth has grown more unequal. War and social upheaval have intensified, infectious disease and famine have persisted, and environmental destruction threatens human welfare on a global scale. The transition from Communism to a Market economy has been so badly managed that, with the exception of China, Vietnam, and a few Eastern European countries, poverty has soared as income have plummeted.<sup>12</sup> Referring to the poverty level prevailing world over during the last decade of 20<sup>th</sup> century Stiglitz claims that globalization has not brought the promised economic benefits to most of the poorest nations in the world. the Number of people living in poverty in 90s have increased by almost 100 million.<sup>13</sup> Whereas, world income during the period has arisen by 2.5%, indicating a growing divide between the rich and the poor.<sup>14</sup> The depressing indicator was that developing world still have 2.801 billion people in 2000, living on less than \$2 a day.<sup>15</sup> While pointing many reasons to this ever growing divide, Stiglitz argues that lionshare of this

burden rests on the International Monetary Fund, which is a public organization funded with the intent of warding off economic.

The main purposes of the IMF, setup at Bretton Woods in 1944, were to provide exchange stability, temporary assistance to countries falling short of foreign exchange, and international sponsoring of measures for curing fundamental causes of disequilibrium in balance of payment.<sup>16</sup>

Therefore, IMF is supposed to focus on a country's macroeconomic issues, such as the budget deficit, its monetary policy, its inflation, its trade deficit, or its borrowing from abroad. The World Bank, the IMF's sister institution in charge of maintaining global economic stability, was to focus its efforts on structural issues. These would include what the country's government spent its money on, the country's financial institutions, its labor markets, or its trade policies. Since the structural issues often affected the macroeconomics of the country, so the IMF viewed both issues as being within its sphere of power. Hence, the IMF became an incredibly powerful player, influencing any country that faced an economic crisis.

Stiglitz asserts that it is this power, and the poor policy decisions that followed that have made matters even worse for the people they were entrusted to help. Despite globalization, poverty remains widespread and deeply entrenched. Much of Africa plunges deeper into misery. Russia and other nations transitioning from communism to capitalism, and nations in Asia and Latin America, continue to suffer widespread disappointments. There are many reasons for these failures. Stiglitz enumerates many that are the result of the policies of Western nations.

- "The Western countries have pushed poor countries to eliminate trade barriers, but kept up their own barriers, preventing

developing countries from exporting their agricultural products and so depriving them of desperately needed export income."

- "The more advanced industrial countries continued to subsidize agriculture, making it difficult for the developing countries to compete, while insisting that the developing countries eliminate their subsidies on industrial goods." Government supported cartels such as in steel and aluminum demonstrate Western hypocrisy and raise costs of necessary imports for poor nations.
- "Looking at the 'terms of trade' -- the prices which developed and less developed countries get for the products they produce -- after the last trade agreement in 1995 - the eighth - the *net* effect was to lower the prices some of the poorest countries in the world receive relative to what they paid for their imports.
- "The loosening of capital market controls in Latin America and Asia" benefited Western banks but caused great harm in those regions when "hot money" flows flooded in and then out, leaving behind "collapsed currencies and weakened banking systems."
- The strengthening of "intellectual property rights" benefited Western profit driven drug companies but deprived third world peoples of affordable life-saving medicines.
- World Bank and other Western loans remain to be repaid even when the projects they financed fail.

### **Opening up of Economies**

Stiglitz argues that the policies pursued by the IMF are based on unsound assumptions:

*"Behind the free market ideology there is a model, often attributed to Adam Smith, which argues that market forces--the profit motive--drive*

*the economy to efficient outcomes as if by an invisible hand. One of the great achievements of modern economics is to show the sense in which, and the conditions under which, Smith's conclusion is correct. It turns out that these conditions are highly restrictive. Indeed, more recent advances in economic theory --ironically occurring precisely during the period of the most relentless pursuit of the Washington Consensus policies--have shown that whenever information is imperfect and markets incomplete, which is to say always, and especially in developing countries, then the invisible hand works most imperfectly. Significantly, there are desirable government interventions which, in principle, can improve upon the efficiency of the market. These restrictions on the conditions under which markets result in efficiency are important--many of the key activities of government can be understood as responses to the resulting market failures.”<sup>17</sup>*

Another IMF policy harshly criticized by Stiglitz is the forcing of developing economies to open up their markets to foreign competition before they are ready to do so. The countries are left with no other choice but to submit to IMF demands because the provision of IMF funds are contingent upon rapid trade and capital market liberalization. Whereas, the developed societies, such as the United States, have always protected their industries deemed unfit to compete with foreign markets unless these industries became strong enough to compete in free market economy. The most shocking is the hypocrisy of Western countries who pushed trade liberalization for the products they exported, but at the same time continued to protect those sectors in which competition from developing countries might have threatened their economies.<sup>18</sup>

Stiglitz sums it up perfectly when he says, “*Small developing countries are like small boats. Rapid capital market liberalization, in the manner*

*pushed by the IMF, amounted to setting them off on a voyage on a rough sea, before the holes in their hulls have been repaired, before the captain has received training, before life vests have been put on board. Even in the best of circumstances, there was a high likelihood that they would be overturned when they were hit broadside by a big wave.”<sup>19</sup>*

### **Privatization**

After going through *Globalization and its Discontents* one concludes that probably Globalization, has led us to a crossroads. *Today markets are governing people*, whereas, in essence people should govern markets. Today Markets generally deal very efficiently with private goods and services, but under provide public goods like knowledge, drinking water, and clean air. The WTO is advocating for the privatization of drinking water, clean air, and some living ecosystems -- ostensibly to provide better access, but clearly also to generate profit. Are fresh water, clean air, and biodiversity part of a global commons -- a fundamental human right? Or are they commodities, to be exchanged for capital? If they *are* privatized, what will be the fate of the one *billion*-plus humans with no access to capital, who live near starvation, with less access to food and water than they did a decade ago?

Privatization often turns state enterprises from losses to profits by trimming the payroll on the name of efficiency thereby destroying jobs rather than creating new ones. In industrialized countries the pains of downsizing or layoffs are compensated by the safety net of unemployment insurance, which are mostly non-existent in less developed countries. Therefore, developing countries have to pay worst social cost of such unemployment in the form of urban violence,

increased crime, and increased mortality rate, social and political unrest etc.<sup>20</sup>

### **Managerial Discrimination**

The prevailing system of governance of IMF and World Bank is a focus of the author's criticism. "The institutions are not representative of the nations they serve", rather, the management is chosen by the major developed nations, which is mostly influenced by its narrow vested interests. The head of the IMF has always being a European, and the head of the World Bank is always an American. No experience working in the developing world is necessary. The staffing of these institutions on the basis of patronage rather than expertise is indicative of the power of the purse culture. This bias has led Stiglitz to believe that the leaders of these institutions are acting in the best interest of the advanced industrial countries, and not those they are supposed to serve. The "openness and transparency"<sup>21</sup> nurtured with democratic procedures are needed in such institutions to curb some abuses of power.<sup>22</sup> After all, if Libya can chair the U.N. Human Rights Commission, why can't Myanmar (Burma) or Cuba lead the World Bank?

### **Flaws Policies and One Size Fits All**

Yet another aspect of the IMF that Stiglitz is critical of is the way they research their policy decisions and make recommendations. The IMF has only one resident representative living in the country being assisted, with teams of economists flying in for only three week missions. Rather than getting a true feel for the country, these economists spend their time in five star hotels pouring over financial data. He makes the claim that one must be able to "feel" what their recommendations impose, and that one cannot do so from a luxury hotel.

Stiglitz provides a lengthy example of the poor recommendations the IMF makes when he talks about Ethiopia, one of the poorest countries in the world with a per capita income of just \$110. The Prime Minister Meles Zenawi had recently come to power after his guerillas won a seventeen year battle against the former Marxist regime. The IMF had suspended its lending program despite the fact that Ethiopia had no inflation and had output growth, two key indicators of a solid macroeconomic framework. They had cut back on military expenditures, and focused their attention on the poorest of the poor living in the rural sector. The IMF suspended its \$127 million in lending because it was worried about the country's budgetary position. The government only had revenue from taxes and foreign aid, and the budget showed that if foreign aid dried up, Ethiopia would be in trouble. This essentially means that revenue from taxes alone must equal expenditures, which in turn means that any foreign aid received can't be spent without getting their budget out of whack according to IMF standards. The IMF also contended that foreign aid was too unstable to be relied upon, but in actuality, Stiglitz argues, it was far more stable than the tax revenue of a developing country where the variations in economic conditions can be vast.

The IMF also imposed strict financial policies on Ethiopia before assistance would be released. They wanted the country to open up their financial markets to Western competition, and divide its largest bank into several pieces. Local banks simply cannot compete with global giants such as Citibank. Stiglitz declares that these global giants suck up all of the depositors' money in the area, and ship them off in the form of loans to the West, rather than providing these much needed funds to an economically depleted area. Opening up their markets makes the country

worse off. The IMF also demanded that interest rates be freely determined by the market, because that has been a driving force of prosperity in the West. But the United States did not adopt this policy until after 1970 when they had a far more developed market. The IMF was imposing policies on these countries that are common in industrialized societies, but what they fail to realize is that it took time even for these advanced societies to adopt these policies. These things don't just happen overnight, and doing so before these markets are ready can lead to disastrous results. Ethiopia's leadership foresaw these results, and fortunately resisted these policies. As a result, IMF lending was suspended, and it took a valiant effort by the World Bank to get this lending restored.

Stiglitz argues that IMF policies contributed to bringing about the East Asian financial crisis,<sup>23</sup> as well as the failure of Russia's and other East European countries conversion to a market economy<sup>24</sup>. Poland and China who employed alternative strategies to those advocated by the IMF have been most successful in controlling inflation and experiencing the fastest rate of growth in the world respectively.<sup>25</sup> Specific policies criticised by Stiglitz include fiscal austerity, high interest rates, trade liberalization, and the liberalization of capital markets and insistence on the privatization of state assets.

### **Absolute Power**

Stiglitz argues a large part of the problem with the IMF is the amount of power they wield. Many of the nations that come to them for help know the policies they will surely recommend are not well suited to their country. They simply have no other place to turn. They must adhere to IMF policies or risk losing much needed funds. Exacerbating this problem is the fact that when IMF money is pulled, World Bank money

generally follows, as well as many private investors. This forces them to accept policies from poorly trained economists (with respect to developing economies), that only spend three weeks in the country before giving their recommendations. Such a short time span often leads to a “one-size-fits-all” approach, and that is simply not good enough for the unique and complex situations they often encounter. Stiglitz writes about an occasion where a report was borrowed from one country for another, and the name of the country in the original report wasn’t even changed.

### **Conclusion**

Stiglitz’s thesis of the book is that globalization is not just a reality to be accepted but also has the power to deliver enormous good to humanity. However, owing to ill governance system of institutional power houses, flawed policy of inexperienced Westerners has unfortunately contributed in to widening poor-rich divide, suffering environment, instable economies, increasing poverty level on one hand while led the dominance of western’s (and the US) commercial and financial interests. Stiglitz pinpoints the effective start of the globalization process and promotion of the free market ideology in the 1980s. However, the policies subsequently pursued by the IMF in East Asia and Russia consisting; rapid trade liberalization by removing impediments to imports, accompanied by equally rapid capital market liberalization and privatizations with a minimalist role assigned to government flawed and proved devastating. Stiglitz also denounces the ‘one-size-fits-all’ approach in which the exact same policies are imposed on every country in need, regardless of their specific circumstances. Any transition of a country into a market economy may only be implemented once the

proper regulatory framework and market institutions have been put in place and for this gradualism rather than ‘shock therapy’ is the key.

Stiglitz believes the *IMF and World Bank should be reformed*, not dismantled -- with a growing population, malaria and AIDS pandemics, and global environmental challenges, Keynes' mandate for equitable growth is more urgent now than ever. He advocates a *gradual, sequential, and selective* approach to institutional development, land reform and privatization, capital market liberalization, competition policies, worker safety nets, health infrastructure, and education. Different countries will need to follow different paths. *Selective* policies would direct funds to programs and governments, which had success in the past. Stiglitz believes that promoting *local and international democracy* is fundamental to reforming global economic policy. Democracy aids social stability, empowers the free flow of information, and promotes a decentralized economy upon which efficient and equitable economies rely. Extending IMF and WTO voting rights to developing countries, along with public accountability, would be a good start. For Stiglitz, promoting democracy comes before promoting business. He concludes by saying, “*globalization can be reshaped, and when it is, when it is properly, fairly run, with all countries having a voice in policies affecting them, there is a possibility that it will help create a new global economy in which growth is not only more sustainable and less volatile but the fruits of this growth are more equitably*”

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**End Notes**

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- 1 . Joseph. Stiglitz, “*Globalization and its Discontents*”, W.W. Norton & Company, Inc. New York.2002, p.9
  - 2 . ibid, p.4
  - 3 . ibid
  - 4 . J. Chirac, “The Economy must be made to serve people”, address at International Labor Conference’ June 1996.
  - 5 . Stiglitz, *opcit*, p.22
  - 6 . ibid, p.20
  - 7 . ibid, pp. 21-22
  - 8 . ibid, p. 52
  - 9 . ibid, p.89
  - 10 . ibid
  - 11 . ibid, p.168
  - 12 . ibid. p.214
  - 13 . ibid, p.5. Also see: *World Bank, Global Economics Prospects and the Developing Countries 2000*,p.29
  - 14 . ibid
  - 15 . *World Bank, Global Economics Prospects and the Developing Countries 2000*,p.29
  
  - 16 . KK Dewett, *Modern Economic Theory*, “International Monetary Fund” , Shyam Lal Charitable Trust, New Delhi,1997, p.516
  - 17 . Stiglitz, *opcit* , pp.73-74
  - 18 . ibid, pp.60-61
  - 19 . ibid , p. 17
  - 20 . ibid, pp. 56-57
  - 21 . ibid, p.227
  - 22 . ibid, p.229
  - 23 . ibid, pp. 89-132
  - 24 . ibid, pp.133-165
  - 25 . ibid, pp.180-187