Engaging the Powers

What they're really up to…

The Stiglitz Papers
Globalization and its Discontents (2002)
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The Problems with Globalization in 2002

Why has globalisation become so controversial?

> **Opening up to international trade has helped many countries to grow more quickly than they otherwise would have done. International trade helps economic development when a country's exports drives its economic growth. Export-led growth was the centrepiece of the industrial policy that enriched much of Asia and left millions of people there far better off. (p.102)**

But

> **To its proponents, globalization (which typically is associated with accepting triumphant capitalism, American style) *is* progress; developing countries must accept it if they are to grow and to fight poverty effectively. But to many in the developing world, globalisation has not brought the promised economic benefits. (p.103)**
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> **A growing divide between the haves and the have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day. Despite repeated promises of poverty reduction made over the last decade of the twentieth century, the number of people living in poverty has actually increased by almost 100 million. This occurred at the same time that total world income increased by an average of 2.5% annually.**
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> **In Africa, the high aspirations following colonial independence have been largely unfulfilled. Instead, the continent plunges deeper into misery, as incomes fall and standards of living decline. (p.104)**

"It is clear to almost everyone that something has gone terribly wrong"

> **The critics accuse Western countries of hypocrisy, and the critics are right. The western countries have pushed poor poor countries to eliminate trade barriers, but kept up their own barriers, preventing developing countries from exporting their agricultural products and depriving them of desperately needed export income. The United States was, of course, one of the prime culprits… (pp.104/105)**
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> **But even when not guilty of hypocrisy, the West has driven the globalization agenda, ensuring that it garners a disproportionate share of the benefits, at the expense of the developing world. It was not just that the more advanced industrial countries declined to open up their own markets to the goods of the developing countries - for instance, keeping their quotas on a multitude of goods from textiles to sugar - while insisting that those countries open up their markets to the goods of the wealthier countries; it was not just that the more advanced industrial countries continued to subsidise agriculture, making it difficult for the developing countries to compete, while insisting that the development countries eliminate their subsidies on industrial goods. Looking at the 'terms of trade' - the prices which developed and less developed get for the products they produce…the result was that some of the poorest countries the world were actually made worse off. (p.105)**

Then, to a surprised world, the meeting of the World Trade Organisation held in Seattle in Washington State, US, in 1999, was disrupted by huge demonstrations objecting to the way globalisation was being managed.

> **For decades, the cries of the poor in Africa and in the developing countries in other parts of the world have been largely unheard in the West. Those who labored in the developing countries know something was wrong when they saw financial crises becoming more commonplace and little progress in reducing the numbers of poor people. But they had no way to change the rules or to influence the international financial institutions that wrote them. Those who valued democratic processes saw how 'conditionality' - the conditions that international lenders imposed in return for their assistance - undermined national sovereignty. But until the protestors came along there was little hope for change and no outlets for complaint…It is the trade unionists, students, environmentalists - ordinary citizens - marching in the streets of Prague, Seattle, Washington and Genoa who have put the need for reform on the agenda in the developed world. (p.107)**

The International financial institutions

> **To understand what went wrong it is necessary to look at the three main institutions that govern globalisation: the IMF, the World Bank and the WTO… The IMF and the World Bank both originated in World War II as a result of the UN Monetary and Financial Conference at Bretton Woods, New Hampshire, in July 1944, part of a concerted effort to to finance the rebuilding of Europe after the devastation of World War II and to save the world from future economic depression. (pp.108/109)**

The task of the World Bank was to fund this enterprise but subsequently a parallel responsibility, to assist the development of emerging countries - emerging, in many cases, from colonial rule - became its priority. With the global financial depression of the 1930s very much in mind, the IMF was charged with preventing another global depression.

> **It would do this by putting pressure on countries that were not doing their fair share to maintain global aggregate (overall) demand, by allowing their own economies to go into a slump…In its original conception, then, the IMF was based on a recognition that markets often did not work well - that they could result in massive unemployment…(p.110)**
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> **Over the years since its inception, the IMF has changed markedly. Founded on the belief that markets often worked badly, it now champions market supremacy with ideological fervor…The most dramatic change to these institutions occurred in the 1980s, the era when Ronald Reagan and Margaret Thatcher preached free-market ideology in the US and the UK. The IMF and the World Bank became the new missionary institutions through which these ideas were pushed on the reluctant poor countries that often badly needed their loans and grants. (p.110/111)**

Stiglitz goes on to explain that during these years the affairs of the IMF and the World Bank became increasingly intertwined. Nevertheless, as a previous chief economist of the World Bank, he is at pains to emphasise a distinct difference in their working methods and, unsurprisingly, he compares the way the IMF worked unfavourably with the modus operandi of the Bank. This is a repeating theme throughout the original edition of GAID.

Focus on the IMF

> **A half century after its founding, it is clear that the IMF has failed in its mission. It has not done what it was supposed to do - provide funds for countries facing an economic downturn…In spite of the fact that our understanding of economic processes has increased enormously during the last fifty years, crises around the world have been more frequent…Every major emerging market that liberalises its capital market (a foundational belief of the Reagan/Thatcher ideology) has had at least one crisis. But this is not just an unfortunate streak of bad luck. Many of the policies that the IMF pushed, in particular, premature capital market liberalisation, have contributed to global instability. And once a country was in crisis, IMF funds and programs not only failed to stabilize the situation but in many cases actually made matters worse, especially for the poor.**

Stiglitz does not feel the need to explain here the principle of liberalising capital markets, but readers of the present paper may find a brief explanation helpful. In a word, liberalising capital markets simply means allowing capital to flow freely throughout the world, unimpeded by national restrictions. For the wealthy countries this means a massive increase in opportunities for investment. For less developed countries it means an unwelcome incursion of foreign capital which will destroy much of the indigenous economy. It is, of course, the central provision of the free market which dominates economic thinking today.

> **The (original) orientation of the IMF, which emphasised market failures and the role for government in job creation, was replaced by the free-market mantra of the 1980s, part of a new 'Washington Consensus' - a consensus between the IMF, the World Bank and the US Treasury about the 'right' policies for developing countries - that signaled a radically different approach to economic development and stabilisation. (p.114)**

One size fits all

> **Many of the ideas incorporated in the consensus were developed in response to the problems of Latin America, where governments had let the budgets get out of control while loose monetary policies had led to rampant inflation…The ideas that were developed to cope with problems arguably specific to Latin American countries, and which I will outline later in the book, were subsequently deemed to be applicable to countries around the world. In some cases there was simply no evidence that they even worked for Latin America. In others, while they may have been effective in Latin America, the circumstances in other countries - poor developing countries in Africa or the economies in transition - were so different as to make them inappropriate.**
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> **However, most of the advanced industrial countries - including the US and Japan - had built up their economies by wisely and selectively protecting some of their industries until they were able to compete with foreign companies. While blaming protectionism has often not worked for countries that have tried it, neither has rapid trade liberalisation. Forcing a developing country to open itself up to imported products that would compete with those produced by certain of its industries, industries that were dangerously vulnerable to competition from much stronger counterpart industries in other countries, can have disastrous consequences - socially and economically. Jobs have been systematically destroyed - poor farmers in developing countries simply couldn't compete with the highly subsidised goods from Europe and America - before the countries' industrial and agricultural sectors were able to grow strong and create new jobs…And because trade liberalisation occurred before safety nets were put into place, those who lost their jobs were forced into poverty…(pp.114/115)**

At the heart of the matter

There are references above to the major change in policy which the IMF made in the early1980s. It departed from its original brief to act as a corrective when 'market forces' alone failed to deal with economic difficulties and crises. Instead, it fervently pursued the 'new' free market ideology of the US and UK governments. Now 'the market always knows best'!

How did this come about? Stiglitz explains that the original brief indicated that the IMF was concerned with the economic welfare of individual states. But, in fact, it was tied to the financial interests within those states, which is not the same thing.

> **I should be clear: the IMF never officially changed its mandate, nor did it ever formally set out to put the interests of the financial community over the stability of the global economy or the welfare of poor countries. (p.296)**

Stiglitz concludes with an illuminating insight:

> **We cannot talk meaningfully about the motivations and intentions of institutions, only of those who constitute and govern it. Even then, we often cannot ascertain true motivations -there may be a gap between what they say are their intentions and their true motivations. As social scientists, we can, however, attempt to describe the behaviour of an institution in terms of what it appears to be doing. Looking at the IMF, as if it were pursuing the interests of the financial community provides a way of making sense of what otherwise might seem to be contradictory and intellectually incoherent behaviours. (p.296)**

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