

Book Review

Stiglitz Joseph E, *Globalization and its Discontents*, published by Allen Lane, printed by Penguin Press, 2002, London, ISBN 0-713-99664-1. Price \$ 16.99 pp 282

Joseph Stiglitz in this book, spearheads the much needed and timely attack on the international organisations - the IMF, the World Bank and the WTO - as well as the 'Western' industrially developed nations, especially the USA. This attack is not new. During the Cold War era - the Communist Block countries led by the USSR, liberals, socialists and communists around the world - levied allegations and accused these very organisations and countries in helping the West to win their war against Socialism and trying to keep the developing countries under developed. Also the opposition political parties, economists and thinkers, as well as the governments in developing or Third World countries have long accused the IMF, the World Bank and the USA of playing 'foul' when negotiating trade, financial and other agreements with these countries. All of them have accused these organisations of harsh conditionality as well as using 'arm-bending' tactics, forcing poorer nations to remain poor in the wake of exploiting their natural and human resources.

But it is just now that voices as important and well informed as Joseph Stiglitz have started revealing the facts and taking sides (through his book *Globalization and its Discontents*) with those that have been dubbed 'enemies' of the free market and globalisation. This book, therefore is important because a well-placed and well-informed 'insider' to these organisations and negotiations has attacked these 'pillars' of the free market with facts from his own experience working in Washington and the World Bank.

In the Preface of his book *Globalization and its Discontents* Joseph Stiglitz writes "I have written this book because while I was at the World Bank, I saw firsthand the devastating effect that globalisation can have on developing countries, and especially the poor within those countries". "I hope my book will open a debate, a debate that should occur not just behind the closed doors of government and the international organisations, or even in the more open atmosphere of universities".

Giving arguments in favour of globalisation, he writes that opening up to international trade has helped many countries grow far more quickly than they would otherwise have done. Globalisation is progress; and therefore if developing countries are to grow and to fight poverty effectively

they must accept it. But Stiglitz also accepts the fact that many of the problems that were to be removed by this “wonderful” process of globalisation have not come about and to many in the developing world, globalisation has not brought the promised economic benefits. Giving examples of Africa, Central and East Asia, Latin America, and Russia, he accepts the fact that if globalisation has not succeeded in reducing poverty, neither has it succeeded in ensuring stability in these countries. Also, globalisation and the introduction of a market economy have not produced the promised results so far in the world.

In Chapter I, *The Promise of Global Institutions*, Joseph Stiglitz asks the question of why globalisation – a force that has brought so much good – has become so controversial. Then he answers: the critics of globalisation rightly accuse the industrially developed countries led by the United States of hypocrisy. In his view, these developed countries have pushed poor countries to eliminate trade barriers, but kept up their own barriers, preventing developing countries from exporting their agricultural products and therefore depriving them of desperately needed export income. In his view, not only in trade liberalisation but also in every other aspect of globalisation, even seemingly well-intentioned efforts have often backfired.

Underlying the problem of the IMF and other international economic institutions, Stiglitz writes that there is the problem of governance in these institutions. In his view, the IMF and the World Bank are not representative of the nations they serve, and these institutions are dominated not just by the wealthiest industrial countries but also by commercial and financial interests in those countries, and therefore the policies of the institutions naturally reflect these vested interests. In his view, the added problem also arises from the fact of who *speaks* for the developing country at the forums of these institutions – the finance ministers and the central bank governors in the IMF, and at the WTO the trade ministers of these countries – and each of these ministers is closely aligned with particular constituencies *within* their countries and therefore the interests of these ministers would conflict at each forum. They would not also represent the will of the entire people that they serve.

In Chapter 2 *Broken Promises*, Stiglitz criticizes the IMF thoroughly. He compares the actions of the IMF to modern high-tech warfare that is designed to remove physical contact with those that they destroy. He compares the IMF's approach to developing countries as having the feel of a colonial ruler and labels the signing of agreements with ‘opening up of Japan’, ‘gunboat diplomacy’, ‘end of the Opium Wars’, and ‘surrender of maharajas in India’.

Stiglitz points out that the IMF, of course, claims that it never dictates but always negotiates the terms of any loan agreement with the borrowing country. But in his view, these are one-sided negotiations in which all the power is in the hands of the IMF, largely because many countries seeking IMF help are in desperate need of funds. He writes that to the IMF the lack of detailed knowledge of the problem and the country is of less importance, because the IMF tends to take a 'one-size-fits-all' approach to all economic ills of all nations and regions.

In his view, there are alternatives to IMF-style programmes, other programmes that may involve a reasonable level of sacrifices, which are not based on market fundamentalism, programmes that have had positive outcomes.

Stiglitz is of the view that in spite of the repeated discussions of openness and transparency, the IMF still does not formally recognise the citizen's basic 'right to know'. The international institutions have thus escaped the kind of direct accountability that are expected of public institutions in modern democracies. He also points out that unfortunately there is no world government, accountable to the people of every country, and to oversee the globalisation process in a fashion comparable to the way national governments would guide such a process. Instead, in today's global process, there is a system that might be called 'global governance without global government' - one in which a few institutions such as the World Bank, the IMF, the WTO and a few players - dominate the world scene, and in which many of those affected by their decisions are left almost voiceless.

In Chapter 3 *Freedom to Choose?* Stiglitz pinpoints the three pillars of the Washington Consensus - fiscal austerity, privatisation, and market liberalisation. He states that many of these policies have become ends in themselves, rather than means to more sustainable growth. In doing so these policies were pushed "too far, too fast, and to the exclusion of other policies that were needed". The results have been far from those intended, fiscal austerity pushed too far, under the wrong circumstances, has induced recession, and high interest rates have impeded fledgling business enterprises. The IMF vigorously pursued privatisation and liberalisation, at a pace and in a manner that often imposed very real costs on countries ill-equipped to incur them. Stiglitz is of the view that forcing liberalisation before safety nets were put in place, before there was an adequate regulatory framework, before the countries could withstand the adverse consequences of the sudden changes in market sentiment that are part and parcel of modern capitalism; forcing policies that led to job destruction before the essentials for job creation were in place; forcing privatisation before there was adequate competition and a

regulatory framework was what was wrong with the IMF forced version of globalisation. He warns that when government policies abrogate that social contract, citizens may not honour their 'contracts' with each other, or with their governments.

Chapter 4 *The East Asia Crisis* shows How IMF policies brought the world to the verge of a 'global meltdown'.

Chapter 5 is titled *Who Lost Russia?*, and concludes that neither the taxpayers in the West, to whom the IMF and IBRD were supposed to be accountable, nor the Russian people, who paid the ultimate price, knew much about what was going on at the time of transition to the market, and only now are we wrestling with the question of 'Who lost Russia?' – and why?' According to him, the answers are arising and as we see them they are not edifying.

Chapter 6 dealing with *Unfair Trade Laws and Other Mischief* starts with the accusation of the IMF being a political institution. He says that the IMF policies were inextricably linked to the political judgments of the Clinton administration's unfair deals and treaties with Russia's Boris Yeltsin and accuses the IMF of being a party to these 'unfair' deals and treaties.

Chapter 7 talks about *Better Roads to the Market* in which Stiglitz explains here that the contrast between China's strategy to the free market as the right approach to globalisation is in contrast to that of Russia's transition to free market reforms. He points out that Poland and China show that there were alternative strategies. In his view, the political, social, and historical context of each country differs. One attribute of the success cases is that they are 'homegrown', designed by the people within each country, sensitive to the needs and concerns of their countries.

Stiglitz bitterly concludes in this chapter that the developed world has placed its bets on 'favoured' leaders and pushes particular strategies of transition. He writes that some of these leaders have turned out to be incompetent, others to have been corrupt, and some both. Some of those policies have turned out to be wrong, others to have been corrupt, and certain ones both. It makes no sense to say that policies were right, and simply not implemented well.

Chapter 8 is *The IMF's Other Agenda*. Joseph Stiglitz states about the World Bank that, "I believe, however, that it has failed in its mission, that the failures are not just accidental but the consequences of how it has understood its mission". In this chapter he writes that if one sees the IMF as

an institution pursuing policies that are in the interest of creditors rather than of the nations that it serves (the debtors), other IMF policies also become more understandable. By focusing on the weaknesses of the crisis countries, the IMF and IBRD not only shifted blame away from their own failures – both the failures of policy and the failures in lending – but they attempted to use the experience to push their agenda still further.

Chapter 9 is *The Way Ahead*. As Stiglitz points out, globalisation today is not working for many of the world's poor. It is not working for much of the environment. It is not working for the stability of the global economy. He adds that to some there is the easy answer: Abandon globalisation. But he believes that this is neither feasible nor desirable.

According to him that globalisation can be reshaped to realise its potential for good and that the international economic institutions can be reshaped in ways that would help ensure that this is accomplished. But to understand how these institutions should be reshaped, it is needed to understand better why they have failed.

The international institutions should, of course, focus on issues where global collective action is desirable, or even necessary. And he advocates change in the governance of these organisations. He also advocates transparency in the IMF, the World Bank and the WTO working, as well as reforms in the IMF and the global financial system.

Joseph Stiglitz concludes, "It's not easy to change how things are done. Bureaucracies, like people, fall into habits, and adapting to change can be painful. But the international institutions must undertake the perhaps painful changes that will enable them to play the role they should be playing to make globalisation work, and work not just for the well off and the industrialized countries, but also for the poor and the developing nations".

Joseph Stiglitz in his book highlights the following points:

1. Globalisation and the introduction of a market economy have not produced the promised results. Not only in trade liberalisation but also in every other aspect of globalisation even seemingly well-intentioned efforts have often backfired. The policies that have been imposed on developing countries in the process of globalisation need to be radically rethought.
2. Abandoning globalisation is neither feasible nor desirable. Globalisation can be reshaped to realize its potential for good and

the international economic institutions can be reshaped in ways that will help ensure that this is accomplished.

3. Stiglitz advocates a globalisation with a more human face. Caring about the environment, making sure the poor have a say in decisions that affect them, promoting democracy and fair trade are necessary if the potential benefits of globalisation are to be achieved.
4. Weak governments and too-intrusive governments have both hurt stability and growth. Therefore he advocates a strong, democratic and economic process to stabilise the socio-economic process in each country. The political, social, and historical context of each country differs. One attribute of the success cases is that policies of change are 'homegrown', designed by the people within each country, sensitive to the needs and concerns of their countries.
5. About rules of global interaction he thinks that these must be seen to be fair and just, must pay due attention to the poor as well as the powerful, must reflect a basic sense of decency and social justice. And these rules have to be arrived at through democratic processes.
6. The IMF has made mistakes in all the areas it has been involved in. Privatisation needs to be part of a more comprehensive programme, which has appropriate legal structures and market institutions, but the 'adjustment policies' in country after country forced cutbacks in education and health and that is the real cause of discontent towards globalisation in the developing world.
7. There are alternatives to IMF-style programmes, other programmes that may involve a reasonable level of sacrifice, which are not based on market fundamentalism, programmes that have had positive outcomes. The time has come to 'grade' the international economic institution's performance and to look at some of those programmes.

The economic policies for humanising globalisation suggested in the book are well placed and in line with the real purpose and aims of the globalisation process – poverty reduction; safety nets environmental protection, transparency of institutions and governments and good governance in developing as well as developed countries with adequate role for the governments to install stable institutions while leaving economic growth to the forces of the free market. What is new is the suggestion of an international order that can regulate the working and policy making of international economic organisations and the exploitative policies of the

governments, especially of the governments of the developed countries of the North while negotiating trade agreements and treaties with their less developed partners from the South.

A book is worth reading and keeping in which the author as an 'insider' to the events of globalisation and the international institutions bravely picks up issues that only the 'outsiders' were previously pointing to. But in the end he does not recommend scrapping of the IMF and World Bank while pointing out that they have miserably failed, but only recommending reforms in these economic institutions which would surely fall on deaf ears of the managers of these institutions and subsequently the managers of the global financial and development system financed through and dictated by the policymakers in these very international institutions.

Apart from its economic and political importance, this book is pleasant to read and all statements are followed by facts that although not documented by footnotes, are explained in a way that those that have been criticised would find hard to refute. More so that Stiglitz in his book is not attacking globalisation itself, just the way the globalisation process has been held hostage to the dictates and highhanded one-sidedness of the bureaucrats in the international organisations and the financial and commercial lobbies in the industrially developed nations. This against the interests of the very poor in the developing world, who should have had gained by this process but have seemingly lost out because of it.

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