

STIGLITZ, JOSEPH E. MAKING GLOBALIZATION WORK, (2006) ALLEN LANE, LONDON

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‘Making Globalization Work’ is Joseph Stiglitz’ sequel to ‘Globalization and its Discontents’ (published four years ago) which became a runaway cult classic selling over a million copies world wide. How many copies will the sequel sell is anybody’s guess. Considering that the sequel was published about six months back and not many people including academics (at least in Pakistan) seem to know about its existence, we can safely say that the sequel will not be able to match the runaway success of ‘Globalization and its Discontents’.

Before reviewing Stiglitz’ latest work it is important that one understands the state of an economist’s mind and his/her way of thinking. For this let me narrate a story. This is a story of an economist, his wife, and their neighbor’s bitch (the term has not been used metaphorically) which had given birth to some lovely puppies. When the economist’s wife heard the news of the birth of the puppies, she immediately went to the neighbor’s house to see the puppies. She fell in love with the cute little puppies which had just been born and wanted to buy one. She asked her neighbor about the breed of the puppies. He said “They are economists”. The economist’s wife was intrigued, she said “My husband is also an economist, it would be nice to have two economists in the house, but first I would like to check it out with my husband”. So off she went back to her home to discuss with her husband about the proposition to buy an economist puppy. The husband said “I will have to do some research” – so he developed a hypothesis, then he developed an econometric model, then he gathered data, and then he did regression analysis, and finally after a week of research came to the conclusion that yes it was feasible to buy an economist puppy – two economists could live under one roof. On getting the green signal the economist’s wife immediately went back to her neighbor’s house with the money and said “I have got the money, I want to buy an economist puppy”. The neighbor replied “I have none”. She could not believe her ears; she could see that the puppies were still there. In the week that it took her husband to conduct his research the puppies had grown and were running around and playing with each other, but they were still there. She said

“Aren’t they the same economist puppies I saw last week”. The neighbor replied “Yes they are the same puppies; they were economists when they were born, but now they have opened up their eyes, they are now decision analysts”.

A predominant majority of economists (especially those in Pakistan) are like the puppies at the time of their birth – they are intellectually programmed with the theoretical concepts that they study from economics text books without having the intellectual capacity to question those concepts or to think beyond them – no wonder Michal Foucault¹ had referred to knowledge as mental prisons. Joseph Stiglitz is one of the rare breed of economists who have opened up their eyes. His first book ‘Globalization and its Discontents’ was about the effect of decision making by economists who have yet to open up their eyes to the realities of the problems facing the developing nations. Economics is not an exact science; the economic models used by economists at the IMF, and the World Bank are at best deeply problematical and at worst deeply flawed. They are based on the control engineering framework and on the assumption that the economy can be managed by the manipulation of a few variables. The same is the case with the economists working for the State Bank of Pakistan, and the Government of Pakistan. At the heart of the problem is the positivist philosophy – the desire for ordering and controlling society as per their meta-framework and blind faith in the theoretical models learnt through economics’ textbooks. Economists who use these theoretical models to control the problems facing national economies are like the puppies at the time of their birth; they refuse to become decision analysts. They see the devastating effects of their policies yet they refuse to learn from their mistakes, and continue with the same prescription when the problem reoccurs.

Stiglitz’ latest work ‘Making Globalization Work’ begins where he ended in ‘Globalization and its Discontents’ discussing the flawed policy framework of the Washington Consensus² with its over emphasis on trade and capital markets liberalization as the central, plank of the strategy for managing the process of any globalization. It reflected the economists belief in ‘market fundamentalism’ - the belief that the unbridled market itself will lead to economic efficiency; and their blind faith in the one-size-fit-all solutions for solving the economic problems of developing nations facing a situation of economic crisis.

This book is different from his earlier work in the sense that this time he not only presents a critique of the process of economic globalization, but also suggests strategies for reengineering and managing the process of globalization if the goals of global economic development and the consequent expected reduction in poverty are to be achieved. The book begins with the chapter titled ‘Another World is Possible’ implying that the process of globalization can be managed in a way to help the developing rather than the developed world. ‘Another World is Possible’ is also the slogan of the World Social Forum (which was also held in Karachi in 2006). Although the World Social Forum has become the latest playground for the neo-leftist (also sometimes referred to as neo socialist) and neo Marxist, the anti-Americans, and the mushrooming populace of NGOs, it has also become the center-stage for the anti-globalization protests – people who see globalization as the problem rather than the solution to their problems. Stiglitz does not agree with their

views. He thinks that the problem is not globalization as such, but the way it is being managed. According to him although it is economics that has been driving globalization, it is politics that is shaping it. The root of the problem lies in the advanced industrial countries and particularly the special interest groups within these countries that are setting the rules of the game to serve their own interests rather than aiming to set a fair set of rules or rules, let alone a set of rules that would promote the well being of the poorest of the poor.

Stiglitz discusses the similarities and the contrasts in the views of the participants at the World Social Forum in New Delhi and the World Economic Forum in Davos. Ironically enough, at both the forums there was an understanding and concurrence of mind that there was a problem with the globalization process, and something had to be done. The basis of the views were, however, quite opposed to each other. At the former, the blame was laid on the of the developed world for not creating fair rules of the game, while at the latter, the responsibility was laid on the developing countries and the need for them to rid themselves of their corruption, to liberalize their markets, and to open themselves to multinational companies.

Stiglitz sympathizes with the former views. One of the reasons for this is the ‘democratic deficit’ in the institutions charged with global governance or oversight. This includes the United Nations, IMF, and the World Bank. In these institutions the votes that count in major decision making are determined largely on the basis of the economic power that the countries possessed at the time of their establishment, rather than representing the present global realities. Another reason is the deeply problematical nature of the field of development economics, which is the basis of economic policies being advocated for the developing countries by the developed world. Stiglitz’ views about development economics are reflected in the following excerpt from the book (p.26):

“The history of development economics is marked by the quixotic quest to find “the answer,” disappointment in the failure of one strategy leading to the hope that the next will work”.

Stiglitz questions the universal laws of economics and does not agree with the concept of market fundamentalism³ advocated by the Washington Consensus. He advocates a more active role of the governments in both promoting development and protecting the poor. While markets are at the center of any successful economy, governments have to create the environment (the physical and the institutional infrastructure) to allow businesses to create jobs and thrive. In this respect, he gives the example of the success of East Asian economies that used the strategy of export oriented growth to pull themselves out of the poverty trap. Their success was very much due to their governments active involvement

in planning and choosing the sectors in which their countries would develop, rather than leaving it to the market. They realized the spillovers of development (technological advancements in one area could help stimulate growth in another) and how new potential opportunities could be exploited through the active involvement of the government in supporting investment in areas where the private sector may be a bit shy to venture.

When economists talk of globalization, their emphasis is generally on international trade, and the need for trade liberalization to reap the benefits of globalization which has been promised as unprecedented prosperity. Trade liberalization is also the most controversial aspect of globalization because there are many people who talk passionately about the negative consequences of trade liberalization – lower wages, growing unemployment, loss of national sovereignty, etc. According to Stiglitz, free trade has not worked because we have not tried it: trade agreements in the past have neither been free nor fair; markets in the developing countries have been opened up to goods from developed countries without full reciprocation. Even if it had, not every country would have been a winner. There are a number of problems facing the developing world. They need to be nurtured over a period of time rather than be opened up immediately to the vagaries of the market forces. Many of the countries in the developed world including the USA, Japan, and many of those in Europe developed under the safety mechanism of tariff protection. The recent development of the East Asian region was also under the protection of the infant industry argument. Critics of the infant industry arguments point to a number of problematical facets of the argument, the most persuasive of which is that special interest groups grab hold of the argument to push for protectionist measures in pursuit of higher profits while at the same time imposing additional costs on the rest of the economy. In view of this problem a better alternative for the developing countries would be the ‘infant economy argument’ to provide broad based protection for the industrial sectors of the developing countries as a whole in order to incubate them till they reach the stage when they are in a position to compete freely within the international markets. There is a need for the rich countries to realize that developing countries are different from the developed countries and need to be treated differently. Rich countries should open up their markets to the poorer ones without reciprocity and without political or economic conditionality. European Union realized the wisdom of this argument in 2001 and opened up its markets to the poorest countries of the world. Sadly USA did not follow suit.

What I have discussed in this review is just the appetizer, for the main course you will have to read the book. The book is a multifaceted examination of the dialectic between the developed and the developing world vis-à-vis the economics or more appropriately the politics of globalization. The book can be described as a deconstructive⁴ analysis of the arguments presented by the developed world in its negotiations with the developing countries since the time of the defunct NIEO confrontations. The book is also about Stiglitz’ own ideas about how the process of globalization needs to be managed and reengineered in order to benefit and improve the economic conditions of the developing world - after all, a predominant majority of the world’s population lives in the developing, rather than the developed world.

The first two and the concluding chapter of the book are broad based, while chapters three to nine are specifically focused on a particular facet of globalization. For example chapter three is on the politics of trade liberalization; chapter four is on the politics of intellectual property rights; chapter five is on the peculiarities of the problems facing resource rich countries which have been described as rich countries with poor people; chapter six is on the environmental issues facing the global community, and politics driving the nation states against development of a common strategy to overcoming them. The titles of the rest of the chapters are fairly self explanatory and need not be discussed. One of the key differences between this work and Stiglitz' earlier ones, is that along with criticism, he has also suggested some ideas for reforming the process of globalization if the promise of globalization, development and eradication of poverty are to be achieved. One may or may not agree with his prescriptions for reforming globalization, but the book certainly is a significant addition to our database of knowledge because it provides a lot of inside information regarding the reality of the interest group politics surrounding the decision making at the supra national institutions like the World Bank and the IMF, and the multilateral forums like the World Trade Organization.

¹ French Philosopher famous for his genealogical analysis of knowledge. Micheal Foucault did to knowledge what knowledge does to its user. He took control of knowledge instead of allowing knowledge to take control of him. He examined the origin of knowledge and interrogated it, and created a knowledge of knowledge.

² The reference is to the consensus forged between IMF (located on 19th Street), the World Bank (18th Street), and the US Treasury (15th Street) on what constituted the set of policies that would best promote development

³ To understand Stiglitz one should read his trademark paper co-written with Bruce Greenwald which is on information asymmetry and the limits of market mechanism. Greenwald, Bruce C., and Joseph E. Stiglitz (1986), "Externalities in Economies With Imperfect Information and Incomplete Markets", Quarterly Journal of Economics, May 1986, pp.229-64.

⁴ Deconstruction is the philosophical thought of the French Philosopher Jacques Derrida which is primarily aimed at opening up the text to reveal its inherent tensions and contradictions.