Journal of Libertarian Studies
Volume 18, no. 1 (Winter 2004), pp. 89–98

BOOK REVIEWS

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JOSEPH E. STIGLITZ. *GLOBALIZATION AND ITS DISCONTENTS.* NEW YORK: W.W. NORTON, 2002. PP. xxii + 282.

Globalization and its Discontents is an enjoyable and thought-provoking book. It is probably the most readable, well-argued, and subtle attack against globalization in the past few years. Although the author fights, in a rather dogmatic style with some shades of arrogance, against what he believes to be devious free-market attitudes, his prose is simple and accessible to a wide audience. But it is also deceptive. While the author emphasizes time and again that he is not leveling an attack against market principles and globalization in general, he advocates Keynesian policymaking (money printing and deficit spending) on virtually every page.

It is an enjoyable book for the reader in search of the perfect world, and it suits the well-meaning anti-globalist who believes that since individuals make mistakes, it is wiser to give other individuals the right to interfere. Put differently, Stiglitz strongly believes that bad policymaking can be reduced by enlightened policymaking, both nationally and on a global scale. And that when international economic agencies do not behave properly, they must be reformed, made more transparent and accountable, and less dependent on special interests.

The author believes that national leaders, by and large, pursue the well-being of their peoples. He also believes that international agencies, like the IMF and the World Bank, must ensure that global phenomena maintain a "human face," and that national politicians be supported by somebody in charge when something goes wrong. Indeed, it is hard to see much economics in these conclusions (see in particular the final

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chapter of the book). Some readers might also question its logic. As the following pages will explain, these doubts are justified.

The foreword to the book sets the pace. While taking good care to inform the possibly unaware reader about his fundamental contributions to economic science, Professor Stiglitz, the 2001 Nobel Laureate, reveals that he became interested in real-world matters in 1993 when he joined the Clinton administration. He later continued his career at the World Bank where he was chief economist and senior vice president. The author claims that this book is the result of those eye-opening experiences, during which he found out that decision-making processes are often influenced by politics and ideology. He further realized that globalization without governance often leads to devastating results, especially on Less Developed Countries (LDCs).

Surprisingly, however, the core argument of the book is not the analysis of the causal link between ideology, politics, and economic performance in a globalized world. Rather, the author keeps concentrating on bad policymaking carried out both by Western national governments and by international organizations. He posits a direct causal link between globalization and bad policymaking, and concludes by suggesting suitable rules for global economic management. According to Stiglitz, these rules should be fairness and consensus, and they should be designed through a democratic process so as to guarantee social justice and meet the needs of everybody.

His thesis is not developed in a theoretically consistent framework. Instead, the author offers a list of case studies in bad economics and policymaking by the IMF and the U.S. Treasury. The next paragraphs will therefore reconsider the main issues raised by Stiglitz, highlight his most important arguments, and underscore some factual and methodological puzzles, these being in fact equivalent to a number of implicit assumptions.

POLITICALLY CORRECT MISCONCEPTIONS ABOUT FREE MARKET ECONOMICS

Although much of the text (for instance, the first chapter) focuses on poverty and globalization, Stiglitz does not state explicitly that poverty is the consequence of globalization. On the contrary, in chapter nine, he states clearly that the origin of all problems is the way globalization has been managed, rather than globalization *per se*. In particular, he feels that since mainstream economists became the managers of the globalization process, people have been betrayed, especially in

LDCs. He adds that globalization policies and institutions—including the IMF and U.S. government—provoked a number of shocks that led entire countries to major crises and disasters. Thus, Western globalizers should take the blame for such failures, since they made empty promises and forced many LDCs to undertake suicidal steps toward liberalization.

As a matter of fact, Stiglitz never really defines what he means by the term "globalization." From a free-market perspective, globalization refers to the freedom to choose among opportunities available on a global scale: Buyers are free to maximize their purchasing power, and sellers are free to compete in order to satisfy consumers' needs and remunerate the scarce resources they use. In other words, globalization stands for a world of opportunities opened to buyers and the end of privileges for sellers. It is, therefore, manifest that globalization is an improvement for those who are allowed to choose, and for those who can successfully satisfy buyers' needs. But it is irrelevant for those who cannot choose—where more-or-less altruistic policymakers decide on their behalf—and it is even harmful for those who enjoy normative privileges.

However, none of the above characterizes Stiglitz's thought. One can guess that from his standpoint, globalization is little more than a promise generated by free-market fundamentalists—this being a synonym for neoclassical scholars, experts, and selected bureaucrats. Consistent with this view, whenever a country failed to grow after its rulers were exposed to neoclassical advisors, globalization is assumed to have been aborted. Once this rather bizarre definition of globalization is accepted, his book can be perceived as an instructive guide to the misdeeds of neoclassical scholarship and the alibis it has provided to widespread criminal behavior. His account of the Russian crisis (chapter five) is a good example.

However, the argument runs into trouble when the author suggests that the solution to neoclassical policymaking is some kind of paternalistic Third Way managed by caring and altruistic politicians devoted to achieving full employment. In particular, he ignores the possibility of having made a mistake by equating globalization with neoclassical thinking. And he seems to be totally unaware of the fact that the alternative to mainstream economics is not enlightened and expanded governance structures, but rather, to echo Mises's wording, freedom to choose and discard. These oversights characterize both the author's interpretations of the crises and his view about what could have been done instead.

These decisive misunderstandings are apparent from the very first pages. While acknowledging that free capital movements and free trade have enhanced living standards in vast areas of the world, Stiglitz remarks that during the age of globalization, the poverty gap has not been reduced. He forgets to tell the reader that most LDCs, where living standards are stagnating and people keep dying because of poverty and civil wars, have hardly been touched by globalization or, more generally, by economic freedom. Accusing globalization for aborted economic growth in Africa since the end of colonialism is not only trite and inaccurate, it is ridiculous.

As for destabilization, Stiglitz seems to be the victim of his own understanding of the free-market process. One does not need a doctorate to know that free-market economics is about preventing policymakers from interfering in peaceful activities voluntarily undertaken by individuals. And it does not take much to see that if market forces are set free, but policymakers do not withdraw and privileges do not disappear, the system sooner or later breaks down. Still, the book ignores these basics, and actually eliminates the whole question by assuming with apparent casualness that there are many different forms of free markets (chapter nine).

Finally, the book falls in line with the well-known mantra whereby all the evils of the developing world are the consequence of present or past Western behavior. For instance, in Stiglitz's view, Western globalizers forced LDCs to reduce their trade barriers and *de facto* created huge trade deficits while destroying fragile production structures. That is not just a terminological question or a somersault in logic; it is bad economics. One wonders what happened to exchange rates. Free trade (and globalization) is a game whereby you cannot have losers, such as import-competing industries, without also having winners, such as exporters. Put differently, you can't have imports unless you have exports to pay for them. Maybe exchange rates did not depreciate enough because they were fixed and the local currency was not convertible, or perhaps because foreign aid made sure that cheap imports could flow in.

Whatever the correct answer is, globalization has nothing to do with fixed exchange rates and inconvertible currencies. And if the West is guilty of providing too much aid to the leaders of poor countries, as is probably true, Stiglitz should say so. But he doesn't. Indeed, when he mentions the evils of fixed exchange rates, the author attributes them to the inconsistencies of the globalizers. Surely, Western protectionism hasn't made life easy for third world countries, but protectionism is the opposite of globalization. It is wrong to claim that the best policy against protectionism is central planning with a human face or enlightened governance.

CASE STUDIES

After having suggested that globalization is the result of bad policymaking enforced by the IMF and, to a lesser extent, by the World Bank and the WTO (chapter one), the rest of the book is, by and large, a sequence of anecdotes and case studies. On one side, Stiglitz describes the blind bureaucrats from the IMF, the repented but weak employees of the World Bank, and the greedy American establishment that fought communism but forgot about democracy. On the other side, we meet the author himself, who modestly explains how he abandoned the academic world in order to solve America's economic problems and, having done that, decided to move on to solve world poverty. As the reader soon finds out, the author faced disappointment, but fought hard and almost single-handedly to stop IMF colonialism.

Stiglitz's cases are persuasive, but somewhat irrelevant and deceptive. They are beside the point, since it is a gross mistake to consider neoclassical constructivism as a synonym for globalization. They are deceptive, for although it is undeniable that advocating capital-markets liberalization in, say, Ethiopia, may harm domestic banks if they are unable to offer good enough credit conditions to borrowers, it is wrong to conclude that farmers suffer *as a result*. Unfortunately, this rhetorical strategy is a recurrent feature of the book.

Stiglitz offers various counterexamples to the development strategies recommended by the IMF. In particular, his implicit thesis is that countries that turned down IMF advice did well. One case is Botswana (chapter two) which, incidentally, ranks relatively high (and higher than Ethiopia) in the Index of Economic Freedom. Another case is China (chapter three). It would be hard to deny that Botswana was right in rejecting IMF policymaking and constraints, or that the political power of China was no match for any IMF bureaucrat. But the Botswana case does not demonstrate that the country's successes were due to socialist planning, enhanced regulation, protectionism, or expansion in the bureaucracy. Nor would one claim that the Chinese leaders succeeded because they introduced further regulation and centralized planning in the past two decades.

Indeed, Stiglitz does not do it, either. As mentioned earlier, he never says that globalization *per se* is bad. He simply states that opening up may be beneficial if some preliminary conditions are met, and that good governments can do desirable things. He hastily concludes that whenever free-market blueprints failed, the explanations lie with Western economic and political interference, starting with the IMF and U.S. Government, which forced good politicians to open up too quickly. As a result, civil servants became corrupt, jobs were destroyed, and easy imports, foreign bankers, and high interest rates choked development. Finally, social tensions erupted, in some cases leading to civil wars.

POLICIES

The economics of IMF policymaking occupies most of the book, since the author frequently deals with privatization, liberalization, foreign direct investment, social tensions, and poverty. A review is not the right place to discuss in detail the fragility of neoclassical economics in these areas, which is the main goal of the author throughout the book. It may be enough to underscore Stiglitz's main ponts. First, he argues, although too much government intervention is bad, there are plenty of good things a government can do if properly enlightened and informed, presumably by reformed international agencies. Second, the market does not yield perfect results, so free-market economics is wrong unless proper institutions are in place, fairness enforced, and full employment guaranteed. Third, the IMF was originally created to get things right by following Keynesian guidelines, but was soon seduced by the dream of the invisible hand. Rather than accomplishing its original and true mission, it ended up colluding with Western financial capitalism and pressure groups.

Once again, the reader is offered various examples:

- free trade, where imports are paid through foreign aid and exchange rates are irrelevant;
- free capital markets, which would undermine much-needed subsidies and expose debtors to the consequences of bad reputations or bad borrowing decisions; and
- price liberalization, which would be unfair to inefficient or badly located producers.

The argument is further developed in chapters four to seven, in which the Southeast Asian and the Russian crises are explored in detail, and where the virtues of gradual Keynesian transitions are opposed to the evils of IMF-style shock therapies. At this stage, Stiglitz's approach should no longer surprise the reader. Let us consider the Asian case. In his view, Southeast Asia's economies were doing fine until the West forced them to open up their capital markets, destroy the miracle, and cause what the author defines as the most dramatic economic crisis since the Great Depression.

However, some caution is in order. Although Stiglitz singles out Indonesia, Korea, and Thailand to illustrate the catastrophe, the well-informed reader cannot help remembering that in 2002, five years after the 1997 crisis blew up, real GDP in those three countries was respectively 99%, 124%, and 105% of its pre-crisis level. As for the alleged domino effect, real GDP in developing Asia in 2002 was 33% higher than just before the crisis.[1]

Never mind the figures. Stiglitz is quite right in saying that the IMF should have kept out of the whole story, but he is wrong in saying that those countries were in good shape prior to IMF intervention, and that the IMF precipitated the crisis. Indeed, why would speculators attack these countries if they were in such healthy conditions to begin with? The truth of the matter is that globalization exposed economic distortions and malfunctions, but the IMF delayed the moment when the distortions were exposed. The redistributive patchwork advocated by Stiglitz may appear to help temporarily, but they are mere window dressing, and can hardly fix a sick system, as the Asian crisis demonstrates. It is deplorable that the IMF played the window-dressing game first, and then provided funds to bail out selected lenders.

Instead, the author accuses the IMF of having served Western financial interests and having disregarded fairness, although the reader will look in vain for a clear definition of fairness. He will find just a hint in chapters three and seven, where Stiglitz refers to fairness as one of the key elements of the social contract—the other being full employment. The author does not bother to explain by whom and where this contract was signed, nor does he clarify what was written in it. Nonetheless, it is clear to him that governments broke the contract by not pursuing fairness, so violent attitudes by the residents were almost legitimized. Put differently, he is persuaded that income transfers are one of the fundamental human rights, rather than being an abuse

[1]International Monetary Fund, *World Economic Outlook* (Sept. 2003), statistical appendix: "Output."

by some at the expense of others. The IMF and the Washington consensus are therefore guilty, since they forced national governments to renege upon the social contracts.

GENERAL ISSUES

As a matter of fact, if the reader forgets about the author's flights into morality, the main problem with the book appears to be its title, which should have been related to the economics and politics of international agencies (the IMF in particular) and of the U.S. government, rather than to globalization. Once again, Stiglitz says very little about globalization, and what he says rests on questionable foundations. Globalization is about deregulation and low taxation. These are not quite the same thing as active central banking, fixed exchange rates, and high taxation, which are the core components of many IMF policies and macro-rescue plans in the past three decades.

As has been argued above, the author neglects the distinction, and develops three main theses. First, international agencies have done a poor job by trying to enforce neoclassical recipes. They have aggravated the economic conditions in many LDCs, and raised bad feelings against anything coming from the West, and from the U.S. in particular. Second, despite their past misdeeds, international agencies *per se* are not a bad idea. Their primary goal should, however, be restricted to the provision of sound information and unconditional aid. Third, opening up (globalization) should not be rejected in principle, but decisions about its timing, depth, and features should be a matter for each national government to decide, especially when politicians are of good quality, and they demonstrate an ability to preserve consensus.

From a policymaking viewpoint, Stiglitz does not consistently advocate a worldwide governance scheme for globalization. Global governance by enlightened and compassionate international bodies is desirable, in his opinion, but each government should also be free to act as it judges appropriate. As for the meaning of the expression "good government," he recommends fairness as the primary criterion to be taken into account for any development policy (chapter three). Nevertheless, one is left wondering about who decides what is fair, and whether Stiglitz would be willing to accept the notion of fairness that many national governments have enforced in the past decades, irrespective of IMF intervention.

Consistent with his assumption about fairness, Stiglitz considers privatization and liberalization attractive, but only if they guarantee extra jobs at fair conditions. Hence, his thesis in favour of conditional globalization and of policies aimed at spreading the costs if anything undesirable happens—including bad lending and investment. Therefore, bad entrepreneurs should not be allowed to fail, but should be rescued through money printing. After all, he argues, a little inflation is preferable to widespread poverty and civil war. It is not a new thesis, and we leave it to the reader to evaluate the extent to which money printing can solve the problems of faulty management and bad government, and whether it can provide suitable incentives for entrepreneurial activities or fairness to those layers of the population who cannot protect themselves against inflation.

ONE CONCLUDING REMARK

This book illustrates and contributes significantly to one gross misconception about globalization: Globalization does not identify policies, neither from neoclassical nor from Keynesian quarters. We do not know how people want to behave, what kind of safeguards they prefer to have, or how much they are willing to pay for them. Free-market globalizers have nothing to say about that, and believe that nobody has. This justifies Professor Stiglitz when he correctly criticizes IMF policymaking and inconsistencies (chapter eight), and it also explains why he is in trouble when he suggests recipes that go beyond generic, but nevertheless treacherous, notions such as fairness and social consensus, almost bordering on demagoguery. See for instance chapter eight, where he confronts the legitimacy of property rights with that of the social contract.

Instead, globalization is about the freedom to opt out of the proposed policies. As the Russian case demonstrates, a market system rests on widely accepted behavioral rules. Stiglitz deserves credit for pointing out that Western consultants have contributed to suffocating or destroying those rules. He also deserves credit for hinting that those consultants also helped centralized policy-making retain its coercive power so that rent-seeking and collusion with the policy-maker continued to be the winning strategy (chapter seven). Of course, it is hardly surprising that under such conditions, alternative systems have not come to the surface, but it is puzzling to see that the author believes this to be the essence or the consequence of globalization. On the contrary, globalization in Russia and in some other countries of the Soviet Empire was never the name of the game. Put differently, Stiglitz succeeds in showing the game and excels in describing it (see chapters six and seven), but equally frequently fails to call it by its proper name: neoclassical constructivism.

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