

Globalization: Theoretical Perspectives
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Lecture – 43
Globalisation and its Discontents: Joseph Stiglitz

Welcome back to the class; let us resume our discussion on other criticisms against globalization. So, this is the third session in this particular week, and we had the two sessions on with vital and influential work titled *The Empire* by Michel Hardt and Antonio Negri, considered to be a highly influential work that has inspired quite a lot of people and been widely regarded as the manifesto of anti-globalization struggles.

So, in this class, I want to introduce you to another critical and influential scholar, an economist by the name of Joseph Stiglitz, who once was a supporter of very neo-liberal economic policies, and later changed his opinion and turned out to be a very bitter critic of globalization, especially the neoliberal globalization. And he became an essential advocate against the policies of IMF and World Bank and then, in general, the kind of capitalist corporations and or that of the market economy.

And he has been quite influential in providing an excellent critique against neoliberal globalization. So, in this particular session, we are going to become to make some familiar themes about his book, titled globalization and its discontents.

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- American economist, public policy analyst, and a professor at Columbia University
- He is a former senior vice president and chief economist of the World Bank and is a former member and chairman of the (US president's) Council of Economic Advisers.
- Author of several books, including 'Globalization and its Discontents' (2002)
- Globalization and its Discontents Revisited (2017)



So, Joseph Stiglitz is an American economist, public policy analyst and a professor at Columbia University. And more than a mere economist, he is considered a significant public intellectual, considered highly influential in forming public opinion, which can reach out beyond the confines of academia, who can shape opinion in the popular inner sphere about specific issues. So, he has been considered to be quite influential.

And he is a former senior vice president and chief economist of the World Bank. He is a former member of the US president's Council of economic advisors chairman. So, he is not somebody who has been confined to his role as a university professor but had quite a lot of reach beyond academia. And the author of several books and *Globalization and its Discontents* is one of the trendy, essential books that he has written, and we will look into those arguments.

And he also published another book on *Globalization and its Discontents Revisited*, published in 2017. In this book, he kind of looks at his arguments in the light of Donald Trump assuming the president's office in the United States. So, he is bringing in quite a lot of more recent changes in the US with the coming of Donald Trump. But we will stick to this old book, the 2002 book, where he put forward the fundamental and substantive arguments against the kind of reckless neoliberal globalization.

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Globalization and its Discontents

- The main tenet of the book is this: pro-globalization policies have the potential of doing a lot of good, if undertaken properly and if they incorporate the characteristics of each individual country. Countries should embrace globalization on their own terms, taking into account their own history, culture, and traditions.
- However, poorly designed policies are likely to be costly. They will increase instability, make countries more vulnerable to external shocks, reduce growth, and increase poverty.



So, I will give you a very brief summary of the book; it is pretty challenging to summarise the whole book in a short period. So, I urge you to make it available for those interested in reading the original. It is one of the trendy books on globalisation, so it is available. So, you can read the copy, but here we will only try to get what he said and get some idea about his major critiques or points of criticism against how globalisation is being handled.

So, the book's central tenet is that pro globalization policies can do a lot of good if undertaken correctly and incorporate each country's characteristics. Countries should embrace globalization on their terms, considering their history, culture and traditions. And by reading this very paragraph itself, it becomes clear that he is not somebody against globalization.

And I do not think that any economists will be ultimately anti-globalization; they will be against the very idea of globalization. They know that it is an inevitable part of late capitalism, the inevitable product of this world era. But he also thinks that globalization can be quiet, profitability can be beneficial to many countries. But he argues that a kind of unit has very complex ways of implementing that, and you cannot have a straitjacket approach that one shape fits all types of argument, that will not work.

Because if it is undertaken correctly and if they incorporate the characteristics of each country, by respecting their terms, taking into account their history, culture and tradition, this is

something significant. And how do global economic institutions like the IMF or World Bank be able to look into these complications?

Because looking into history, culture and traditions, they are considered more complications and unnecessary deviations. They are widely regarded as excessive and irrelevant irritants in their typical economic policy of circles. Because they think they are less significant and a purely technical, managerial understanding of economics is sufficient. That is why many policies take shape; that is how many procedures take form.

But, Stiglitz, a critical economist, argues that you need to look into history, culture and traditions. However, poorly designed policies are likely to be costly. They will increase instability, make countries more vulnerable to external shock, reduce growth and increase poverty. So, this is the central argument that the policies of globalization and how they are implemented are critical, and I need to pay close attention to that.

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- The problem, according to Stiglitz, is that globalization has not been pushed carefully, or fairly. On the contrary, liberalization policies have been implemented too fast, in the wrong order, and often using inadequate—or plainly wrong—economic analysis.
- As a consequence, he argues, we now face terrible results, including increases in destitution and social conflict, and generalized frustration.
- The culprits are the IMF and its “market fundamentalists,” the “Washington Consensus,” and the US Treasury.



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The problem, according to Stiglitz, is that globalisation has not been pushed carefully or fairly. On the contrary, Liberalization policies have been implemented too fast in the wrong order, often using inadequate or inappropriate economic analysis. So, it is essential self-criticism or criticism be levelled against his fellow economists because economists are sitting in these critical economic institutions, international economic institutions.

So, he argues that they often use inadequate or plainly or wrong economic analysis. And these liberalisation policies are being implemented too fast. These bodies, especially World Bank and IMF, have been exerting quite a lot of pressure on a host of countries to adapt to a very radical restructuring of their economy because they believe that that is how the country's economy needs to be reformulated what we generally understand it as a kind of a neoliberal economic turn, I will explain what it means in the next slide.

So, as a consequence, he argues that we now face terrible results, including an increase in poverty and social conflict and generalised frustration. So, his argument that many countries underwent economic depression during the 1990s was no, much, much later in 2009. Then, there was a recession in 2008. He argues that you had this East Asian crisis and a host of these reasons, or relative poverty and deprivation in many countries. He claims this is a result of this wrong implementation of economic policies.

And he very squarely blames the doorsteps of these three critical factors; the main culprits, he used the same word culprits, are the IMF and its market fundamentalists. So, he characterises IMF as the market fundamentalist. So, who significantly, very strongly believes that the market has its way of getting things done and that you do not need to interfere in the market.

The market has its logic market will decide, whatever the market chooses to, is good for the economy. And we know that this particular debate has a very long history, whether can we have a complete laissez-faire approach? Can we take our hand from the market and allow the need to have its run? Or should the state intervene, or if the state has to intervene to what extent, and if the market is allowed to run, what would be the consequences on different sections of the population.

So, he characterises the IMF as the market fundamentalist, and he also blames the Washington Consensus and the US Treasury as the three crucial, critical culprits.

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The Washington Consensus refers to a set of free-market economic policies supported by prominent financial institutions such as the International Monetary Fund, the World Bank, and the U.S. Treasury reached in 1989.



1. Low government borrowing. The idea was to discourage developing economies from having high fiscal deficits relative to their GDP.
2. Diversion of public spending from subsidies to important long-term growth supporting sectors like primary education, primary healthcare, and infrastructure.
3. Implementing tax reform policies to broaden the tax base and adopt moderate marginal tax rates.
4. Selecting interest rates that are determined by the market. These interest rates should be positive after taking inflation into account.
5. Encouraging competitive exchange rates through freely-floating currency exchange.
6. Adoption of free trade policies. This would result in the liberalization of imports, removing trade barriers such as tariffs and quotas.
7. Relaxing rules on foreign direct investment.
8. The privatization of state enterprises. Typically, in developing countries, these industries include railway, oil, and gas.
9. The eradication of regulations and policies that restrict competition or add unnecessary barriers to entry.
10. Development of property rights.



Now, what is Washington Consensus? I have a slide that lists around ten critical policy decisions that Washington Consensus in 1989 arrived at. So, Washington Consensus refers to free-market economic policies supported by prominent financial institutions such as the IMF, the World Bank and US Treasury in 1989. So, I am not going into the details of all the ten; we will just read out and maybe touch upon the last couple of things because they talk about liberalisation, privatisation, and deregulation.

So, they are all essential economic policies aimed at liberalising the economy, opening up the border, opening up the economy, inviting or encouraging private players to come in. And, of course, disinvestment, the powerful argument that the state must withdraw from many activities and private players must be allowed to play very actively. So, the idea was low government borrowing to discourage developing economies from having high fiscal deficits related to their GDP.

Diversion of public spending from subsidies to significant long term growth supporting sectors like primary education, primary health care and infrastructure. And we know that when neo-liberal economies are infamous for their opposition to these subsidies, the third point is implementing tax reform policies to broaden the tax base and adopt moderate marginal tax rates. And the fourth point is selecting interest rates determined by the market; these interest rates should be favourable after considering inflation.

The fifth point is encouraging competitive exchange rates through a freely floating currency exchange. So there is no restriction of foreign investment to come into the picture. Adopting a free trade policy is very contentious and significant. This would result in the liberalisation of imports, removing trade barriers such as tariffs and quotas. And we know that this particular theme is very current in the contemporary era.

Many countries, including the USA or European countries and India, think that we have gone too much in terms of this liberalisation and are putting more and more import trade tariffs and quotas against the Chinese products. And in India also, we are talking about being more self-reliant; we are talking about 'Atmanirbhar'. So, we see a backlash of this particular kind of policy.

Then relaxing rules on foreign direct investment, to the extent to which foreign capital can be allowed, and then we can be allowed to invest in your own country to take over your domestic industries and business groups and other things. And one of the critical points of privatisation of state enterprises. Typically, these industries include railways, oil, and gas in developing countries.

So, the state wants to sell off many of its public enterprises to withdraw from such economic activities and allow private players to play. And the eradication of regulations and policies that restrict competition or add unnecessary barriers to entry and development of property rights. So, if you summarise these ten points, I thought I would put all these in a slide though it looks very, very clumsy.

So, these are some of the very, very important features adopted in the Washington Consensus. Still, they also are some of the essential elements of a neo-liberal economic policy.

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- Most of the book is devoted to criticise the IMF for its failure in three main areas: (i) crisis management (e.g., the East Asian crisis); (ii) development of poorer countries (iii) transition from planned to market economies (e.g., the problems with Russia).
- More generally, the IMF is accused of having undergone a great mutation from Keynes' creature to fight global depressions to "the cockpit of market fundamentalism" and the "Washington Consensus". -
- In this regard, Stiglitz stresses that IEs need to have a more open mindset rather than rely on a unique model and refrain from prescribing one-size-fits-all policies that may be harmful.
- The allegation is that, by prescribing seemingly pro-market policies that however exacerbate the risks of systemic shocks (e.g., early capital account opening, premature domestic financial liberalization) and disregard the need for social safety nets, the Washington Consensus is undermining globalisation.



So, now coming back to this particular book of Globalization and its Discontents, most of it is devoted to criticising the IMF for its failure in three main areas. One is crisis management, the East Asian crisis, and other East Asian countries, including Singapore and Malaysia. All of them experienced a challenging economic situation in late 2000. And then there was a fear that this East Asian financial crisis might spill over to the rest of the world, but that did not happen to that extent it was feared.

Then the development of poorer countries transition from plant to market economies example, the problem with Russia. So, these are the three areas in that Stiglitz argues that IMF failed. More generally, the IMF is accused of having undergone a significant mutation from Keynes creature to fight global depression to the cockpit of market fundamentalism and the Washington Consensus.

So, Stiglitz is very unkind in his criticism against IMF and many times, many reviews of the book I have opined that it turned out to be quite bitter because he targets some officials personally, he targets the intention of the officials, he targets the very integrity of the officials saying that they are mainly from the more affluent countries. They are always loyal to their parochial interests and that of their countries rather than the more extensive interests of the rest of the world.

But he is very, very caustic in his criticisms against the IMF. In this regard, Stiglitz stresses that IEI, IEI is the institutions of economic, international economic institutions, including World Bank and IMF and another thing, need to have a more open mindset rather than rely on a unique model and refrain from prescribing one size fits for all policies that might be harmful. So, this is his recurring theme that implementation of Washington Consensus that, as if that is a silver bullet, the Phoenix for all economic problems across the world.

And then implementing these set of regulations without looking into the complexities, historical complexities, and cultural and local things would be disastrous. The allegation is that the Washington Consensus is undermining globalisation by prescribing seemingly pro-market policies that exacerbate the risk of systemic shocks. Early capital account opening premature domestic financial liberalisation and disregarded social safety nets.

So, his overall argument is that you are insensitive to these local conditions. You are pushing these agendas, oblivious to their very negative consequences on a host of the local population and other sections of the people. And these initiatives are creating quite a lot of adverse effects. And these negative consequences in terms of the economic suffering of a substantial section of the population, the economic decline of indigenous financial enterprises and organisations and thereby a kind of increased sentiment against the very idea of globalization.

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- Since, according to Stiglitz, they do not cater for the benefits of globalisation to be shared and, to the contrary, produce growing inequality, such policies may have become the most serious obstacle to expand free trade, the extent of markets and, accordingly, reap larger gains for the world.
- He identifies the three pillars of the Washington Consensus (fiscal austerity, privatisation, and market liberalisation) and contends that "...the problem was that many of these policies became ends in themselves, rather than means to more equitable and sustainable growth."
- Liberalisation is carried out without putting it in its proper context and lacking the proper institutional set up.



According to Stiglitz, they do not cater for the benefit of globalisation to be shared, and on the contrary, produce growing inequality, such policies may have become the most severe obstacle to expand free trade, the extent of markets and accordingly reap more significant gains for the world.

So, while to a certain extent we can say that these policies of liberalisation and privatisation have increased the kind of international trade and opened up economic globalization, Stiglitz would argue that mishandling of the same has resulted in quite a lot of negative consequences and that must have undermined the very spirit of globalisation by turning a vast section of populations against that. He identifies the three pillars of the Washington Consensus: fiscal austerity, fiscal austerity related to the state spending less and less money for the internal welfare activities and subsidy and other things.

Privatisation, allowing more or more private players to come into critical areas like saying, for example, education or health or military or railway or other things, we know that even in India, we are passing through that kind of a transition, India had a robust public sector, India up till 1990, India followed quite a lot of socialistic oriented economic policy, where the state and public sector played a vital role and with the financial restructuring of the 1990s by Manmohan Singh and others.

So, we have also started a new privatisation process, fiscal austerity, and market liberalisation. And contends that the problem was that many of these policies became ends in themselves rather than means to more equitable and sustainable growth. So, he argues that this whole idea of equitable growth is for almost everybody. It is not that growth increases the divide between rich and the poor.

It is not that the growth only benefits a few at the cost of a large section of the population; it is more equitable and sustainable growth. So, these two essential lessons have been forgotten, or they have been sidelined, according to Joseph Stiglitz. Liberalisation is carried out without proper context and lacks an excellent institutional setup.

So, to what extent do you liberalise your economy? Have you thought about what happens to your farmers, for example, if you open up your economy when other countries dump their agricultural products into your country, thereby reducing the price of your products abysmally low? So, what are the steps taken and the kinds of initiatives taken? These are all critical points, according to Stiglitz.

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- Sequencing of reforms is crucial, else, liberalisation will not be successful. In fact, institution building must precede or at least accompany liberalisation but also there must be a social consensus in the nation that is undertaking such transformation. And the social consensus may only rest on the respect of a social contract whereby benefits will be widely shared.
- Unfortunately, the Washington Consensus does not worry about the social contract, as it believes in "trickle down economics", i.e., the idea that growth by itself will heal the problems it initially causes.



Sequencing of reform is crucial. So, economic reform, as we say, cannot be implemented, or suddenly, it cannot be pushed in a very aggressive manner; it has to be planned appropriately, or else liberalisation will not be successful. Institution building must proceed or at least accompany

liberalisation. But also, there must be a social consensus in the nation that is undertaking such a transformation.

And the social consensus may only rest on the respect for a social contract, whereby benefits will be widely shared. So, Stiglitz is talking about some of the core ideas of an egalitarian society and a democratic society, where every section of the population is confident when a new initiative is taken. Every institutional mechanism is in place so that these new economic policies will benefit everyone.

So, he fulfilled promises or foresees a kind of a democratic spirit behind implementing these things. And then he accuses these international economic institutions of paying scant regard to these essential arguments. And unfortunately, the Washington Consensus did not worry about the social contract. A social contract is a contract between the state and the citizen. The citizen respects the state-citizen performs their obligations dutifully on the belief in the agreement that the state is there to take care of their necessities.

So, in an era of neo-liberal economy, where the state role has been contracted to a large extent, many a time, a large population is at the mercy of the market. And we know that the needs can be ruthless. The market has significantly less sentiment towards discrimination, inequality, poverty, or lack of access to resources. So, these are not the kind of terms that the market really would like to think; the market would try to think about profit maximisation.

So, he says that the state has to have that kind of a political commitment to its citizens. That is the idea that the growth by itself will heal the problems it eventually causes. So, he argues that this Washington Consensus does not worry about the social contract; instead, it believes in trickle-down economics. So, what is trickle-down economics?

Trickle-down economics believes that you cannot wait for every section of the people to improve, or your economic policies should not target at the lowest rung; instead, you must encourage, or you must enforce a rapid economic growth so that once a country progresses economically or its GDP increases or there is a substantial section of the population, at least the elites improve gradually, its benefits will trickle down and so that even the last person will be benefited.

So, this is a policy by default, not aimed at the poorest of the poor. Still, it is aimed at the top, it is aimed at the most affluent section, most important section, the section that is capable of sprucing up the growth rate with the belief that this economic growth will bring in benefits and these benefits will include trickle down some just like water trickles down maybe along with soil, so that after some time it reaches the bottom.

But we know that this all trickledown economics or trickledown effect has been widely questioned. It has been widely asked; a vast amount of literature questions. This rationale is that you do not worry that the poor will ultimately benefit from economic growth. And there have been studies that have conclusively shown that there is hardly any relation between the poor improving their situation and high economic growth because inequality can be a significant phenomenon.

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- To whom are the IEIs accountable? They are controlled by officials from the developed nations representing specific interests even within their own countries; finance ministers and central bank governors for the IMF-WB, trade ministers for the WTO. This leads Stiglitz to conclude that behind the mindset imposing (questionable) Washington Consensus policies is the fact that the IEIs cater for particular interests associated with a parochial perspective.
- As such, the IEIs lack representation of and accountability to groups other than the financial community and the business/commerce community of developed countries.



To whom are these IEIs accountable, International Economic Institutions responsible? They are controlled by officials from the developed nations representing specific interests even within their own countries, finance ministers and central bank governors or IMF, World Bank, trade ministers or the WTO World Trade Organizations. This leads Stiglitz to conclude that the IEIs cater to particular interests associated with a parochial perspective behind the mindset of imposing questionable Washington Consensus policies.

So, this is the point that I mentioned earlier. So, he thinks that rather than very sound rational economic policies, quite a lot of very non-rational parochial interest, the self-interest of these World Bank members play a pivotal role in deciding the guidelines of the World Bank and others. The international economic institutions lack representation and accountability to groups other than the developed countries' financial and business commerce communities.

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- Globalisation calls for global institutions addressing global externalities: according to JES, major changes are needed in the governance and voting rights of IEs. Also more openness and transparency is needed as secrecy undercuts democracy and accountability.
- Stiglitz makes two proposals: one directly to reshape the IMF, the other to more broadly reform the international financial system.
- JES believes that “voices must be raised ... to address the legitimate concerns of those who have expressed discontent with globalization, if we are to make globalization work for the billions of people for whom it has not, if we are to make globalization with a human face succeed”.



So, he is questioning their more considerable integrity itself, their larger politics itself, saying that they may not have any more significant political commitment to the underdeveloped nations or developing nations, but their ultimate aims are already regulated and controlled by the very parochial interests. So, he argues that globalisation calls for global institutions to address global externalities.

According to Stiglitz, significant changes are needed in these institutions' governance and voting rights. Also, more openness and transparency is needed as secrecy undercuts democracy and accountability. So, as I mentioned, his book is a powerful critique of how these institutions, especially the World Bank and IMF, work. Stiglitz makes two proposals, one directly to reshape the IMF and broadly reform the international financial system.

He believes that voices must be raised to address the legitimate concerns of those who have expressed discontent with globalisation if we are to make globalisation work for the billions of

people for whom it has not if we are to make globalisation with a human face to succeed. So, this is the kind of argument that Joseph Stiglitz put forward. He is passionately arguing for a more democratic process, a more equitable distribution of resources to every nation.

He questions the dominance of the developed nations and their economic and political agenda at these economic international economic institutions. So, he asked for a very radical reform within this IMF and the global financial system. So, this is a broad overview of Stiglitz, especially his work, *Globalization and its Discontents*; I have not gone into each chapter.

There is a chapter on Russia, there is a chapter on different other themes, but this is the overall kind of broader argument. So, I hope you have some pictures and ideas about Stiglitz criticism. A person served as a vice president of World Bank, who later became a bitter critic of these institutions. So, let us stop here and meet you for the next class. Thank you.