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Review

Globalization: Stiglitz's Case

By Benjamin M. Friedman
Globalization and Its Discontents
by Joseph E. Stiglitz
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1.

The most pressing economic problem of our time is that so many of what we usually call "developing economies" are, in fact, not developing. It is shocking to most citizens of the industrialized Western democracies to realize that in Uganda, or Ethiopia, or Malawi, neither men nor women can expect to live even to age forty-five. Or that in Sierra Leone 28 percent of all children die before reaching their fifth birthday. Or that in India more than half of all children are malnourished. Or that in Bangladesh just half of the adult men, and fewer than one fourth of adult women, can read and write.[1]

What is more troubling still, however, is to realize that many if not most of the world's poorest countries, where very low incomes and incompetent governments combine to create such appalling human tragedy, are making no progress—at least not on the economic front. Of the fifty countries where per capita incomes were lowest in 1990 (on average, just \$1,450 per annum in today's US dollars, even after we allow for the huge differences in the cost of living in those countries and in the US), twenty-three had lower average incomes in 1999 than they did in 1990. And of the twenty-seven that managed to achieve at least some positive growth, the average rate of increase was only 2.7 percent per annum. At that rate it will take them another seventy-nine years to reach the income level now enjoyed by Greece, the poorest member of the European Union.[2]

This sorry situation stands in sharp contrast to the buoyant optimism, both economic and political, of the early postwar period. The economic historian Alexander

Gerschenkron's classic essay "Economic Backwardness in Historical Perspective" suggested that countries that were far behind the technological frontier of their day enjoyed a great advantage: they could simply imitate what had already proved successful elsewhere, without having to assume either the costs or the risks of innovating on their own. The economist and demographer Simon Kuznets, who went on to win a Nobel Prize, observed that economic inequalities often widen when a country first begins to industrialize, but argued that they then narrow again as development proceeds. Albert Hirschman, an economist and social thinker, put forward the hypothesis that, for a while, at the beginning of a country's economic development, the tolerance of its citizens for inequality increases, so that the temporary widening that troubled Kuznets need not be an insuperable obstacle. Throughout the countries that had been colonies of the great European empires, the view of the departing powers was that the newly installed democratic institutions and forms they were leaving behind would follow the path of the Western democracies. Political alliances, like the myriad regional pacts established during the Eisenhower-Dulles era (SEATO, CENTO, and all the others), would help cement these gains in place.

Not surprisingly, the contrast between that earlier heady optimism and today's grimmer reality has led to a serious (and increasingly acrimonious) debate over two closely related questions. What, in retrospect, has caused the failure of so many countries to achieve the advances confidently predicted for them a generation ago? And what should they, and those abroad who sympathize with their plight and seek to help, do now?

Perhaps not since the worldwide depression of the 1930s have so many thinkers attacked a problem from such different perspectives: Have the non-developing economies (to call them that) pursued the wrong domestic policies? Or have they been innocent victims of exploitation by the industrialized world? Is it futile to try to foster economic development without an appropriate social and political infrastructure, including what has come to be called the "rule of law" and perhaps also including political democracy as well? Or do these favorable institutional creations follow only after a sustained

improvement in material standards of living is already underway? Would more foreign aid help? Or does direct assistance from abroad only create parallels on a national scale to the "welfare dependency" sometimes alleged in the US, dulling the incentive for countries to undertake difficult but needed reforms? How much blame lies with corruption in the nondeveloping countries' governments, often including the outright theft by government officials of a large fraction of whatever aid is received? And then there is the most controversial question of all: Is the "culture" of these countries—specifically in contrast to Western culture—simply not conducive to economic success?

One important concrete expression of the optimism with which thinking in the industrialized world addressed the challenge of economic development a generation and more ago, before these painful questions became prominent, was the creation of new multinational institutions to further various aspects of the broader development goal. The United Nations spawned a family of sub-units to this end, most prominently the UN Development Program and the UN Conference on Trade and Development. The Food and Agriculture Organization (founded in 1945, but separately from the UN) and the World Health Organization (1948) had more specific mandates. The International Bank for Reconstruction and Development (commonly called the World Bank), established in 1944 mostly to help rebuild war-torn Europe, soon shifted its attention to the developing world once that task was largely completed.

The International Monetary Fund (the IMF, or sometimes just the Fund) was a latecomer to the development field. Established in tandem with the World Bank in 1944, the IMF's original mission was to preserve stability in international financial markets by helping countries both to make economic adjustments when they encountered an imbalance of international payments and to maintain the value of their currency in what everyone assumed would be a permanent regime of fixed exchange rates.

By the early 1970s, however, the fixed exchange rate system proved untenable, and floating rates of one kind or another became the norm. Moreover, as the Western European economies gained strength while, at the same time, more and more developing countries entered the international trading and financial economy, it was increasingly the developing countries that ran into balance of payments problems or

difficulties over their currencies and therefore turned to the IMF for assistance. As a result, over time the IMF became increasingly involved in the business of economic development. And as development has faltered in many countries—including many in which the IMF has played a significant part—the IMF's policies and actions have increasingly moved to the center of an ongoing, intense debate over who or what to blame for the failures of the past and what to do differently in the future.

Joseph E. Stiglitz, in *Globalization and Its Discontents*, offers his views both of what has gone wrong and of what to do differently. But the main focus of his book is who to blame. According to Stiglitz, the story of failed development does have a villain, and the villain is truly detestable: the villain is the IMF.

2.

Joseph Stiglitz is a Nobel Prize-winning economist, and he deserves to be. Over a long career, he has made incisive and highly valued contributions to the explanation of an astonishingly broad range of economic phenomena, including taxes, interest rates, consumer behavior, corporate finance, and much else. Especially among economists who are still of active working age, he ranks as a titan of the field. In recent years Stiglitz has also been an active participant in economic policymaking, first as a member and then as chairman of the US Council of Economic Advisers (in the Clinton administration), and then, from 1997 to 2000, as chief economist of the World Bank. As the numerous examples and personal recollections in this book make clear, his information and his impressions are in many cases firsthand.

In *Globalization and Its Discontents* Stiglitz bases his argument for different economic policies squarely on the themes that his decades of theoretical work have emphasized: namely, what happens when people lack the key information that bears on the decisions they have to make, or when markets for important kinds of transactions are inadequate or don't exist, or when other institutions that standard economic thinking takes for granted are absent or flawed.

The implication of each of these absences or flaws is that free markets, left to their own devices, do not necessarily

deliver the positive outcomes claimed for them by textbook economic reasoning that assumes that people have full information, can trade in complete and efficient markets, and can depend on satisfactory legal and other institutions. As Stiglitz nicely puts the point, "Recent advances in economic theory"—he is in part referring to his own work—"have shown that whenever information is imperfect and markets incomplete, which is to say always, and especially in developing countries, then the invisible hand works most imperfectly."

As a result, Stiglitz continues, governments can improve the outcome by well-chosen interventions. (Whether any given government will actually choose its interventions well is another matter.) At the level of national economies, when families and firms seek to buy too little compared to what the economy can produce, governments can fight recessions and depressions by using expansionary monetary and fiscal policies to spur the demand for goods and services. At the microeconomic level, governments can regulate banks and other financial institutions to keep them sound. They can also use tax policy to steer investment into more productive industries and trade policies to allow new industries to mature to the point at which they can survive foreign competition. And governments can use a variety of devices, ranging from job creation to manpower training to welfare assistance, to put unemployed labor back to work and, at the same time, cushion the human hardship deriving from what—importantly, according to the theory of incomplete information, or markets, or institutions—is no one's fault.

Stiglitz complains that the IMF has done great damage through the economic policies it has prescribed that countries must follow in order to qualify for IMF loans, or for loans from banks and other private-sector lenders that look to the IMF to indicate whether a borrower is creditworthy. The organization and its officials, he argues, have ignored the implications of incomplete information, inadequate markets, and unworkable institutions—all of which are especially characteristic of newly developing countries. As a result, Stiglitz argues, time and again the IMF has called for policies that conform to textbook economics but do not make sense for the countries to which the IMF is recommending them. Stiglitz seeks to show that the consequences of these misguided policies have been disastrous, not just according to

abstract statistical measures but in real human suffering,
in the countries that have followed them.

Most of the specific policies that Stiglitz criticizes will be familiar to anyone who has paid even modest attention to the recent economic turmoil in the developing world (which for this purpose includes the former Soviet Union and the former Soviet satellite countries that are now unwinding their decades of Communist misrule):

Fiscal austerity. The most traditional and perhaps best-known IMF policy recommendation is for a country to cut government spending or raise taxes, or both, to balance its budget and eliminate the need for government borrowing. The usual underlying presumption is that much government spending is wasteful anyway. Stiglitz charges that the IMF has reverted to Herbert Hoover's economics in imposing these policies on countries during deep recessions, when the deficit is mostly the result of an induced decline in revenues; he argues that cuts in spending or tax hikes only make the downturn worse. He also emphasizes the social cost of cutting back on various kinds of government programs—for example, eliminating food subsidies for the poor, which Indonesia did at the IMF's behest in 1998, only to be engulfed by food riots.

High interest rates. Many countries come to the IMF because they are having trouble maintaining the exchange value of their currencies. A standard IMF recommendation is high interest rates, which make deposits and other assets denominated in the currency more attractive to hold. Rapidly increasing prices—sometimes at the hyperinflation level—are also a familiar problem in the developing world, and tight monetary policy, implemented mostly through high interest rates, is again the standard corrective. Stiglitz argues that the high interest rates imposed on many countries by the IMF have worsened their economic downturns. They are intended to fight inflation that was not a serious problem to begin with; and they have forced the bankruptcy of countless otherwise productive companies that could not meet the suddenly increased cost of servicing their debts.

Trade liberalization. Everyone favors free trade—except many of the people who make things and sell them.

Eliminating tariffs, quotas, subsidies, and other barriers to free trade usually has little to do directly with what has driven a country to seek an IMF loan; but the IMF usually recommends (in effect, requires) eliminating such barriers as a condition for receiving credit. The argument is the usual one, that in the long run free trade practiced by everyone benefits everyone: each country will arrive at the mixture of products that it can sell competitively by using its resources and skills efficiently. Stiglitz points out that today's industrialized countries did not practice free trade when they were first developing, and that even today they do so highly imperfectly. (Witness this year's increase in agricultural subsidies and new barriers to steel imports in the US.) He argues that forcing today's developing countries to liberalize their trade before they are ready mostly wipes out their domestic industry, which is not yet ready to compete.

Liberalizing Capital Markets. Many developing countries have weak banking systems and few opportunities for their citizens to save in other ways. As one of the conditions for extending a loan, the IMF often requires that the country's financial markets be open to participation by foreign-owned institutions. The rationale is that foreign banks are sounder, and that they and other foreign investment firms will do a better job of mobilizing and allocating the country's savings. Stiglitz argues that the larger and more efficient foreign banks drive the local banks out of business; that the foreign institutions are much less interested in lending to the country's domestically owned businesses (except to the very largest of them); and that mobilizing savings is not a problem because many developing countries have the highest savings rates in the world anyway.

Privatization. Selling off government-owned enterprises—telephone companies, railroads, steel producers, and many more—has been a major initiative of the last two decades both in industrialized countries and in some parts of the developing world. One reason for doing so is the expectation that private management will do a better job of running these activities. Another is that many of these public companies should not be running at all, and only the government's desire to provide welfare disguised as jobs, or worse yet the opportunity for graft, keeps them going. Especially when countries that come to the IMF have a

budget deficit, a standard recommendation nowadays is to sell public-sector companies to private investors.

Stiglitz argues that many of these countries do not yet have financial systems capable of handling such transactions, or regulatory systems capable of preventing harmful behavior once the firms are privatized, or systems of corporate governance capable of monitoring the new managements. Especially in Russia and other parts of the former Soviet Union, he says, the result of premature privatization has been to give away the nation's assets to what amounts to a new criminal class.

Fear of default. A top priority of IMF policy, from the very beginning, has been to maintain wherever possible the fiction that countries do not default on their debts. As a formal matter, the IMF always gets repaid. And when banks can't collect what they're owed, they typically accept a "voluntary" restructuring of the country's debt. The problem with all this, Stiglitz argues, is that the new credit that the IMF extends, in order to avoid the appearance of default, often serves only to take off the hook the banks and other private lenders that have accepted high risk in exchange for a high return for lending to these countries in the first place. They want, he writes, to be rescued from the consequences of their own reckless credit policies. Stiglitz also argues that the end result is to saddle a developing country's taxpayers with the permanent burden of paying interest and principal on the new debts that pay off yesterday's mistakes.

Stiglitz's indictment of the IMF and its policies is more than just an itemized bill of particulars. His theme is that there is a coherence to this set of individual policies, that the failings of which he accuses the IMF are not just random mistakes. In his view these policies—what he labels the "Washington consensus"—add up to something that is unattractive, if not outright repugnant, in several different ways.

First, Stiglitz repeatedly claims that the IMF's policies stem not from economic analysis and observation but from ideology—specifically, an ideological commitment to free markets and a concomitant antipathy to government. Again and again he accuses IMF officials of deliberately ignoring

the "facts on the ground" in the countries to which they were offering recommendations. In part his complaint is that they did not understand, or at least did not take into account, his and other economists' theoretical work showing that unfettered markets do not necessarily deliver positive results when information or market structures or institutional infrastructure are incomplete.

More specifically, he argues that the IMF ignores the need for proper "sequencing." Liberalizing a country's trade makes sense when its industries have matured sufficiently to reach a competitive level, but not before. Privatizing government-owned firms makes sense when adequate regulatory systems and corporate governance laws are in place, but not before. The IMF, he argues, deliberately ignores such factors, instead adopting a "cookie cutter" approach in which one set of policies is right for all countries regardless of their individual circumstances. But importantly, in his eyes, the underlying motivation is ideological: a belief in the superiority of free markets that he sees as, in effect, a form of religion, impervious to either counterarguments or counterevidence.

A further implication of this belief in the efficacy of free markets, according to Stiglitz, is that the IMF has abandoned its original Keynesian mission of helping countries to maintain full employment while they make the adjustments they need in their balances of payments; instead the IMF recommends policies that result in steeper downturns and more widespread joblessness. He does not argue, of course, that the IMF prefers serious recessions or unemployment per se. Rather it simply acts on the belief—seriously mistaken in his view—that allowing free markets to do their work will automatically take care of such problems. By extension, he argues, the IMF also does not act to promote economic growth (which helps to produce full employment). Again the claim is not that the IMF dislikes growth per se, but that it believes free markets are all that is needed to make growth happen.

As a further consequence of the misguided policies that follow from this "curious blend of ideology and bad economics," Stiglitz argues, the IMF itself is responsible for worsening—in some cases, for actually creating—the problems it claims to be fighting. By making countries maintain overvalued exchange rates that everyone knows will have to fall sooner or later, the IMF gives currency

traders a one-way bet and therefore encourages market speculation. By forcing countries that are in trouble to slash their imports, the IMF encourages the contagion of an economic downturn from one country to its neighbors. By making countries adopt high interest rates that stifle investment and bankrupt companies, the IMF encourages low confidence on the part of foreign lenders. At the same time, by repeatedly coming to these lenders' rescue, the IMF encourages lax credit standards.

Second, and more darkly, the IMF, in Stiglitz's view, systematically acts in the interest of creditors, and of rich elites more generally, in preference to that of workers, peasants, and other poor people. He sees it as no accident that the IMF regularly provides money that goes to pay off loans made by banks and bondholders who are eager to accept the high interest rates that go along with assuming risk—while preaching the virtues of free markets as they do so—although they are equally eager to be rescued by governments and the IMF when risk turns into reality.

Stiglitz also thinks it is no coincidence that food subsidies and other ways of cushioning the hardships suffered by the poor are among the first programs that the IMF tells countries to cut when they need to balance their budgets. He observes that IMF officials tend to meet only with finance ministers and central bank governors, as well as with bankers and investment bankers; they never meet with poor peasants or unemployed workers. He also notes that many IMF officials come to the Fund from jobs in the private financial sector, while others, after working at the IMF, go on to take jobs at banks or other financial firms.

Here again Stiglitz's point is that the IMF's mistakes are not random but the systematic consequence of its fundamental biases. His argument is as much about the policies the IMF doesn't recommend as the ones it does:

Stabilization is on the agenda; job creation is off. Taxation, and its adverse effects, are on the agenda; land reform is off. There is money to bail out banks but not to pay for improved education and health services, let alone to bail out workers who are thrown out of their jobs as a result of the IMF's macroeconomic mismanagement.

One specific example, land reform, sharply illustrates what he has in mind. As Stiglitz points out, in many developing countries a small group of families own much of the cultivated land. Agriculture is organized according to sharecropping, with tenant farmers keeping perhaps half, or less, of what they produce. Stiglitz argues,

The sharecropping system weakens incentives—where they share equally with the landowners, the effects are the same as a 50 percent tax on poor farmers. The IMF rails against high tax rates that are imposed against the rich, pointing out how they destroy incentives, but nary a word is spoken about these hidden taxes.... Land reform represents a fundamental change in the structure of society, one that those in the elite that populates the finance ministries, those with whom the international finance institutions interact, do not necessarily like.

Stiglitz considers, and rejects, the view that these and other choices are the result of a conspiracy between the IMF and powerful interests in the richer countries—a view that is increasingly popular among the anti-globalization protesters who now appear at the IMF's (and the World Bank's) meetings. Stiglitz's view is that in recent decades the IMF "was not participating in a conspiracy, but it was reflecting the interests and ideology of the Western financial community."

Finally, Stiglitz sees the IMF's systematic biases as a reflection of a deeper moral failing:

The lack of concern about the poor was not just a matter of views of markets and government, views that said that markets would take care of everything and government would only make matters worse; it was also a matter of values.... While misguidedly working to preserve what it saw as the sanctity of the credit contract, the IMF was willing to tear apart the even more important social contract.

Throughout the book, the sense of moral outrage is evident.

3.

Do Stiglitz's criticisms hold up?

To begin, it is easy enough to accuse Stiglitz of selective memory. From reading *Globalization and Its Discontents*, one would never know that the IMF had ever done anything useful. Or that Stiglitz, and his colleagues first at the Council of Economic Advisers and then at the World Bank, had ever gotten anything wrong. Or that those against whom he often argued in the US government—especially at the Treasury, which he continually portrays as complicit in the IMF's misdeeds, but at the Federal Reserve System too—had ever gotten a question right. (In the book's sole mention of Alan Greenspan, Stiglitz accuses him of being excessively concerned with inflation to the exclusion of a vigorous expansion that could have otherwise taken place in the US during the Clinton years.)

One can also disagree with Stiglitz over the consequences of what the IMF plainly did, even including those policies it pursued that most people now agree proved counterproductive. By 2002 the Asian financial crisis of 1997–1998 is receding into the past. While some of the affected countries (most obviously Indonesia) still feel its effects, by now others have made solid recoveries. Stiglitz is right that they have not regained, and probably will not, the rates of growth they achieved before the crisis. But those rapid growth rates may well have been unsustainable in any case. Even in Russia, where per capita income remains well below what it was when the Soviet Union collapsed, and where the IMF pursued the policies toward which Stiglitz is the most scathing, the economic situation looks better today than it did when he was writing his book.

A more fundamental problem, as Stiglitz readily acknowledges, is that we cannot reliably know whether the consequences of the IMF's policies were worse than whatever the alternative would have been. Many longtime observers of the developing world will notice that Stiglitz rarely mentions economic policy mistakes that poor countries make on their own initiative. Nor does he pay much attention to the large-scale corruption that is endemic in many developing economies—except in the case of corruption in Russia, where he argues that the privatization program pushed by the IMF opened the way for corruption on a historically unprecedented scale. He also never points out that the typical developing country spends far more on its military forces (to fight whom?) than it receives in foreign aid; yet it would seem necessary to take account of

such wasteful expenditures, along with graft in all its forms, if one is to give a clear picture of why the nondeveloping economies are not succeeding.

It is surprising too, in light of his emphasis on the absence of adequate regulation and supervision of financial institutions in the developing world, that Stiglitz does not make more of the mistakes made by private-sector businesses. For example, what made Korea vulnerable to the 1997-1998 Asian turmoil was that the country's business conglomerates (the "chaebols") had borrowed too heavily, and that the country's banks had financed these loans by borrowing in US dollars and relending in Korean won. True, banks abroad that were lending in dollars to the Korean banks may have become excessively confident that the IMF would bail them out if anything went wrong. But surely much of the fault lay with Korea's own businessmen and bankers. And once they had built their house of cards, how much damage would its inevitable collapse have caused if the IMF had simply stayed away?

Defenders of the IMF cannot claim that all went well after countries implemented the Fund's recommendations. But they would presumably argue that events would have turned out even worse on some alternative course. They would also presumably argue that of course they knew that information was imperfect, and markets incomplete, and institutions absent, in the countries that came to the IMF for assistance. The issue, to be argued on a case-by-case basis, is just what different set of actions might therefore have proved more beneficial.

Interestingly, there is also disagreement today over just how prevalent dire poverty is in the developing world —and, what is more important, whether poverty is increasing or decreasing. Stiglitz echoes the standard view that the number of people around the world living on less than \$1 per day, or \$2 per day, has been increasing in recent years. By contrast, his own colleague in the Columbia Economics Department, Xavier Sala-i-Martin, has recently published a study arguing just the opposite.[3] Sala-i-Martin's point is that for purposes of assessing whether someone is economically well off or miserable, what matters is not how many US dollars the person's income could buy in the foreign exchange market but what standard of living

that income can support in the place where he or she lives. Because the currency values established in foreign exchange markets (and also the values that governments set officially for currencies for which there is no market) often do not accurately reflect purchasing power, the difference between the two measures of income is sometimes large.

In India, for example, the average person's income in rupees in 2000 translated into just \$460 per year at the prevailing market exchange rate of 44 rupees per dollar. But because food, clothing, housing, and other consumer necessities are so much cheaper in India than in the US, the same amount of rupees was equivalent to an American income of nearly \$2,400. Similarly, the average Chinese income in 2000 was \$840 at the official yuan-dollar market exchange rate, but more than \$3,900 if measured on a purchasing power equivalent basis.[4]

Even if we allow for these differences in the cost of living, the number of people in the world who live on the equivalent of \$1 per day, or \$2 per day, is still depressingly large: according to Sala-i-Martin's estimate, nearly 300 million, and not quite 1 billion, respectively. But this is far below the 1.2 billion and 2.8 billion figures that have become familiar in public discussion and are used by Stiglitz. More important, Stiglitz follows the more familiar view in saying that these totals are increasing, but Sala-i-Martin estimates that they are declining despite the rapid growth in world population. As a result, he finds, the proportion of people living on what amounts to \$1 per day has fallen from 20 percent of the world's population a quarter-century ago to just 5 percent today, while the \$2-per-day poverty rate has fallen from 44 percent to 19 percent.

Much empirical research will have to be done and much analytical debate will have to take place before anyone can confidently decide which of these contrasting measurements is the more accurate. But it is worth pointing out that the major source of the decline in poverty over the last quarter-century, according to Sala-i-Martin's calculation, is the dramatic reduction in poverty in China, the world's most populous country—and Stiglitz, too, praises China's performance as one of the developing world's great recent economic success stories. (In keeping with his central theme, he argues that China succeeded in reforming its

economy and reducing its poverty because it ignored the IMF's advice to liberalize and privatize abruptly, and instead followed the gradualist approach, adapted to its own situation, which he favors.) To be sure, the plight of many developing countries, especially in sub-Saharan Africa, remains dire, as Sala-i-Martin also points out, and it may well be deteriorating. But if attention is centered on people rather than countries, the great advances made in China, and to a lesser extent in India—which together account for nearly 38 percent of the world's population—necessarily represent a very significant improvement.

Stiglitz's attack on the IMF raises not just factual (and counterfactual) questions but substantive issues as well, particularly his argument that the IMF acts on behalf of banks and bondholders, and rich countries more generally, and therefore against the interests of the poor. To what extent is the IMF supposed to act as lending institutions ordinarily act? Stiglitz complains at length, and with many specific cases to cite, that the IMF violates countries' economic sovereignty when it requires them to carry out its policy recommendations as a condition for its granting credit. But don't responsible lenders normally impose such conditions on borrowers? Stiglitz never acknowledges that today the IMF faces serious criticism from many economists and politicians in the West on the ground that it makes loans with too few conditions, so that the borrowing countries often simply end up wasting the money.[5]

Or should the IMF think of itself not as a lending institution, acting as responsible lenders normally do, but instead as an institution charged solely with promoting the welfare of the borrowing countries, with waste of some credits to be expected? Some parts of Stiglitz's complaint are not so much about the IMF per se as about the absence of some form of international authority capable of imposing on citizens who are already relatively well off the burden of assisting their less fortunate fellow human beings elsewhere.

To be sure, the world's rich countries could simply agree among themselves to devote a much greater share of their own incomes to foreign aid (a frequently suggested standard is 1 percent of GDP), either out of a sense of moral obligation or in recognition that raising the incomes of

poor countries would create benefits spilling over to the industrialized world as well. But in fact there is no such agreement. The foreign aid that most rich countries give is shrinking compared to their GDP, and the efficacy of such aid is increasingly being challenged anyway.

Even within countries with firmly established democratic governments, there is always debate about how generous such assistance should be and what form it should take. But a large part of what troubles Stiglitz and many others who share his views of inequality among countries is that there is not only no such agreement but also no effective mechanism—what he calls "systems of global governance"—for even choosing a policy in this important area and then making it stick. The earnest desire in some quarters for a more formal approach to international burden-sharing, together with the equally sincere resistance to the idea among others, is nothing new. But it is worth recognizing explicitly that it is central to the question of inequality.

Moreover, the matter at issue is deeper than simply whether there should or should not be functioning institutions empowered to act, in effect, as a world government. What obligations the citizens of one country owe to citizens of another is a question that goes to the heart of what is involved in being a nation-state and in acting as a responsible human being. Is it morally legitimate for US citizens to pay taxes to provide fellow Americans with a minimum standard of health care under Medicaid, or a minimum standard of nutrition through food stamps, that is far above what the average Angolan receives—and not at the same time be willing to pay the costs of bringing Angola, and the rest of the world's low-income countries, up to that standard? Most Americans will readily answer yes. But as philosophers like John Rawls and Thomas Pogge have argued, wholly apart from the practical benefits that we might gain from alleviating human misery abroad, justifying in moral terms why we owe more to strangers who are close at hand than we owe to strangers who are far away turns out to be complicated and, in the end, extremely difficult.

Many of the more practical economic elements of Stiglitz's argument are also issues of long standing. He makes a strong case for policies that favor gradualism over "shock

therapy"; that put the emphasis not on what developing countries have in common but on how each is different; that place the concerns of the poor above those of creditors; that give maintaining full employment a higher priority than reducing inflation (at least when inflation is less than 20 percent a year); and that fight poverty and promote economic growth directly, rather than merely establish conditions under which economies will be likely to grow, and poverty to decline, on their own. There is serious debate over each element in this program. Stiglitz provides a powerful logical case, together with much by way of both broad-based evidence and firsthand specifics, to support his side on each of these issues. But his objective is not to give a balanced assessment of the debate.

Stiglitz has presented, as effectively as it is possible to imagine anyone making it, his side of the argument, including the substantive case for the kind of economic development policies he favors as well as his more specific indictment of what the IMF has done and why. His book stands as a challenge. It is now important that someone else—if possible, someone who thinks and writes as clearly as Stiglitz does, and who understands the underlying economic theory as well as he does, and who has a firsthand command of the facts of recent experience comparable to his—take up this challenge by writing the best possible book laying out the other sides of the argument. What is needed is not just an attempt to answer Stiglitz's specific criticisms of the IMF but a book setting out the substantive case both for the specific policies and also for the general policy approach that the IMF has advocated.

Who might write such a book? The most obvious candidate is the former MIT economist Stanley Fischer, who throughout the years that Stiglitz's analysis covers was the IMF's first deputy managing director—that is, the Fund's second-highest ranking official, but for most observers, the person who, far more than anyone else, actually set the direction of the organization's policies. Another is my Harvard colleague (now president of the university) Lawrence Summers, who served as the US deputy treasury secretary, and then secretary, during these years. Supporters of the IMF in the academic world, like MIT's Rudiger Dornbusch, may lack the firsthand "who said what to whom" knowledge that comes from high-level public service, but they are clear-thinking economists and powerful advocates nonetheless. In the absence of such an answer,

however, Stiglitz's book will surely claim a large place on the public stage. It certainly stands as the most forceful argument that has yet been made against the IMF and its policies.

Notes

[1] Data from the 1999/2000 World Development Report, Table 2.

[2] These are my calculations based on data in the 2001 World Development Indicators; 1999 is the latest year for which full data are available. Some countries that are presumably poor enough to be in the "lowest-income fifty"—for example, Afghanistan—are excluded because per capita income data are not available for them.

[3] "The Disturbing 'Rise' of Global Income Inequality," National Bureau of Economic Research Working Paper No. w8904, April 2002.

[4] Data from the 2002 World Development Report, Table 1.

[5] Surprisingly, Stiglitz is not consistent in his own treatment of the question of what conditions are appropriate for loans. He repeatedly castigates the IMF for imposing its officials' views over those of government officials in debtor countries. But he boasts about how the World Bank, where he worked, forced Russia to accept stringent conditions in order to receive a loan.

Letters

November 21, 2002: Thomas W. Pogge, WHAT IS POVERTY?

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