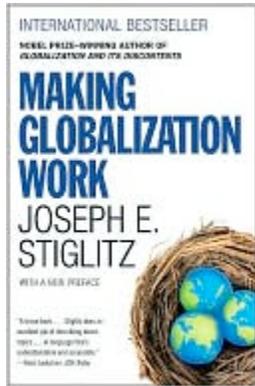




Making Globalization Work

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Introduction

JOANNE MYERS: Good morning. I'm Joanne Myers, Director of Public Affairs Programs, and on behalf of the Carnegie Council I would like to welcome you to another very special morning.

Today our guest is Joe Stiglitz, and he will be discussing his book, [Making Globalization Work](#).

Globalization is often described as an inevitable force that, depending on your perspective, will either benefit or destroy the planet. Much of the controversy surrounding globalization—such as trade agreements, currency reserves, [the Kyoto Protocol](#), and intellectual property rights—involve issues that may be either unfamiliar or obscure. Many may find these topics difficult to grasp. Yet, as Professor Stiglitz explains, these concepts can be made readily accessible, as they are important to furthering our understanding in making globalization work for all.

In his latest book, Professor Stiglitz offers an imaginative and bold new prescription for global equality, one which he argues will result in a fairer world. He is concerned that globalization has not benefited as many people as it could and should have. Accordingly, he outlines what needs to be done to make this process work for the poor and for developing countries. He tells us why changes are needed in government policies, in world economic institutions, in the rules of the game, and in the general mindsets of the public at large.

Professor Stiglitz knows that development is complex. He has seen how the "one size fits all" solution does not work for everyone. Yet, he also understands that there are common principles, which, if suitably adapted, will be effective in helping those in need.

Joseph Stiglitz is one of the most prominent and controversial economists of our time. He chaired U.S. President Bill Clinton's Council of Economic Advisers and was the Chief Economist at the World Bank. Both these appointments gave him a front-row seat for seeing how the real world works and for understanding the problems of globalization. Both of these positions enabled him to gather information on which he based this book, which in many ways is a sequel to his earlier publication, *Globalization and its Discontents*, which was an analysis of how international organizations affect policy and the lives of ordinary people. This book helped to change the debate about how globalization should be reshaped.

Just as every movement, whether political, cultural, or social, needs intellectual leaders to articulate its philosophy, the globalization movement is no exception. As one of the world's foremost economic

thinkers, who also happens to be the recipient of the 2001 Nobel Prize in Economics for his seminal work on the economics of information uncertainty, Professor Stiglitz has been known for always bringing a unique perspective to the debate. Over the years, he has easily emerged as a major figure for those in both the developing and developed worlds, who are profoundly critical of the present character of globalization.

Throughout, he has remained determinedly optimistic that a better world is achievable. So, when our guest argues that the evolution of this movement does not have to be bad for the environment, does not have to increase inequality, nor weaken cultural diversity or advance corporate interests at the expense of the well-being of ordinary citizens, and then bravely speaks out about bringing ethics back into the business, I can think of no better place for him than here at the Carnegie Council, the voice for ethics in international policy, to put forth his platform for change.

Please join me in giving a very warm welcome to our speaker, who, no matter how many times he has spoken here—and I have counted at least five—I always find his presence to be a gift to us all. Our guest this morning, Joseph Stiglitz.

Remarks

JOSEPH STIGLITZ: Thank you very much for that introduction. It really is a pleasure to be here, and partly because of what was said about Carnegie and its mission of bringing ethics into debates about international relations and globalization.

One of the discussants of my book contrasted it with a number of other books on globalization. As you know, there have been a lot of books. It has been a fashionable subject. Not as many as on the Bush fiasco, but it's up there. They went through the index of my book and one of the other books, that by [Jagdish Bhagwati](#), and they observed that words like fairness, equality, inequality almost don't appear at all in Jagdish Bhagwati's book and they appear a great deal in my book. That says a lot about where the focus of this book is, as opposed to a lot of the other books.

A lot of economists have talked about the advantages of globalization—[Adam Smith](#) talked about it—creating larger markets, larger markets expand opportunities. But they don't talk about some of the other adverse consequences, which I will focus on more narrowly, and the fact, for instance, that inequality is growing in most countries around the world.

It is not an accident. It has to do very clearly with globalization and, in particular, with the asymmetric ways in which globalization has been pursued in the last 25 or 30 years, both the asymmetries between developed and less-developed countries; the asymmetries between capital and labor; between natural persons, people as we know them, and artificial persons like corporations.

In a way, the title of the book summarizes the book. "Making Globalization Work" suggests that something is not working, and a great deal of the book is devoted to trying to describe and diagnose what is not working. It also says there is a note of optimism, that I actually think that the arguments that were made about what globalization could do had a certain validity to them, that there are things that could be done to make globalization work—some small, some large; some that could be undertaken rather quickly, some that are actually going on as I'm talking, and others that will take years to accomplish. But there is a rich agenda which would enable globalization to work, or at least work better, for more of the people around the world.

The book differs from my earlier book, as in that one I focused on the IMF and the World Bank. I had just come out of the World Bank and I had a certain passion for describing what I had seen. What this book points out is that globalization is much broader than that. It involves a whole range of issues, from intellectual property, trade, multinational corporations, how we manage the environment, natural resources, oil, as well as the global financial system. In a sense, globalization is the sum total of all of

those. While there are some underlying forces that affect the shaping of all of these—and I have tried to analyze that—that one actually has to go in and try to talk about each of these, to think about them each separately and think about what can be done to make globalization work in each of those areas.

What I'm going to try to do is, first, in this talk to describe some of the ways in which globalization has not been working, to describe some of the broad macro explanations for why it hasn't been working, and then look at one or two of these, depending on the time, and hope you read the rest of the book to find the other ones, and just give a hint of the kinds of issues. I will talk about probably some that have gotten some attention, some that have not.

At the beginning of the modern debate on globalization 20 years ago, the view was that globalization would make everybody better off. So when in Seattle at the beginning of what was supposed to be a new round of trade talks, riots broke out, rather than the beginning of what I think President Clinton wanted to be called the Clinton Round, a lot of people were surprised, because everybody was supposed to be made better off.

Some economists responded by saying, "This is not a problem of economics; it's a problem for psychiatry. Why was it that people were better off and unhappy?" But actually, as we looked at the data, it was clear that they were unhappy because they should be unhappy. They were being made worse off.

At the last round of trade negotiations, [the Uruguay Round](#), for the poorest countries of the world, it wasn't that they got a small share of the gains—everybody expected that; that's power politics—but they actually wound up worse off than they had been before, it was so unbalanced, so asymmetric.

The hope of globalization was that it was like a rising tide lifts all boats, and so the poorest would see themselves go up. But in the way it was managed, it might be more likened to a riptide knocks over the weakest boat, and without life vests, without safety nets, a lot of the people in those weaker boats drowned.

That is, in a sense, what has happened. The divergence between the richest countries and the poorest has increased, in spite of a well-defined economic theory that said they ought to narrow.

Even closer to home, the divergence between Mexico and the United States has increased in recent years, since [NAFTA](#). One of the arguments for NAFTA, for a North American Free Trade Agreement, was that it was supposed to reduce that gap and reduce, therefore, migration pressure. It didn't do that. And actually, as we looked and studied what happened to NAFTA, some of the provisions of NAFTA actually contributed to the problem.

Now, let me make clear, NAFTA is called the North American Free Trade Agreement, but it was not a free trade agreement. A free trade agreement would be very easy to write; you could write it in about three pages: we have no tariffs, they have no tariffs; we have no non-tariff barriers, they have no non-tariff barriers; we have no subsidies, they have no subsidies. It would be a couple of pages. Lawyers would be out of business; they couldn't write. But, in fact, if any of you know some of these free trade agreements, such as the Uruguay Round, they go on for thousands of pages. In fact, almost no one knows what's in them—you might know your own little provision. That gives an opportunity for all kinds of special interests to stuff in things that shouldn't be there.

That happened in NAFTA. There were things there that actually we didn't discover until later, that no one in the White House talked about, and that everybody in the White House, had they talked about them, would have opposed. It was so complex. A particular provision was on Chapter 11, on investor protection, which was really an anti-environmental provision. Never discussed.

There is a recent book by Tom Friedman that has gotten a lot of attention and sold very well, called [The World Is Flat](#). One of the themes of my book is not only is the world not flat, but it is in many ways getting less flat. Two of the reasons it is getting less flat are: some of the rules of the game, like the

Uruguay Round, made it tilted against the developing countries; but also, one of the things that Tom rightly emphasizes is that new technologies have changed the global landscape, and there are some enormous successes, and we shouldn't underestimate the importance of those. They impose challenges, but they are successes.

China and India have been doing very well, and there is a convergence at that part of the income distribution. China has been growing at 9.7 percent for thirty years—enormous. If you compare it with what happened in the Industrial Revolution or any period in history, it's an order of magnitude higher, and they managed it in ways to ensure that hundreds of millions of people moved out of poverty, even though there was growing inequality. India has been growing at 5-to-6 percent for a quarter-century.

One of the things that led to the success of these countries was heavy investments in technology and education. But those at the bottom in Africa typically don't have the resources, don't have the knowledge, to take advantage of these new technologies. As a result, the gap between them and the rest of the world is actually increasing.

As another example or manifestation of the way that globalization isn't working out in the way that we would have thought, if you saw a world in which water was moving uphill, you would say something's peculiar about that world; antigravity—you could make a science fiction movie. But in economics the corresponding notion is money ought to be going from rich countries to poor countries—poor countries where it is scarce, rich countries where it is relatively abundant, sort of a standard economic model. In fact, in recent years money has been flowing from the poor countries to rich countries. Again, standard economic theory says rich countries can bear risk better than poor countries and financial markets pride themselves in their ability to slice and dice risk and move from those less able to those more able to bear it, and that means move it from the poor to the rich.

But the debt contracts that are signed around the world, typically by poor countries, involve short-term contracts denominated in hard currencies. The result of it is that the poor countries bear an enormous amount of risk associated with interest rate and exchange rate volatility, and that has meant there have been large numbers of crises.

If there were only one or two countries that had a debt crisis, you could blame the government. Every country, even a democratic government, knows that it can have bad political leaders. A country can go from a 2 percent surplus to a 4 percent deficit of GDP in the space of three or four years. So we know that can happen anywhere in the world, and it can happen in the developing world.

But the thing about developing country debt is it's not just one or two countries; it's country after country. When you see something happening to country after country, you have to say there's something systemic about it, there's something systemic that leads countries to have more debt than they can bear.

And while it is good news what happened at [Gleneagles](#) a year and a half ago, debt relief, the third time in a decade, the fact that it was the third time in a decade suggests that unless we get at the underlying problems, we will have to have more and more debt relief. The discussion at Gleneagles highlighted the problem. People talked about debt relief, but no one talked about the systemic sources of the problem and doing anything about those systemic sources.

Economists like to think that we know more about growth and what makes successful growth than we did 30 years ago—I mean what have we been doing if we haven't learned something about that?—and we think that there are better institutions. We worked hard to create successful market institutions around the world. If that's true, you would have thought that you would have had faster and more stable economic growth.

But actually, it is exactly the contrary. The countries that followed the advice of the IMF, the World Bank, have actually done more poorly recently than they did in the past before they found out how to manage their economies. So in the 1990s, growth in Latin America was just half of what it was in the 1950s,

1960s, and 1970s, before we taught them what to do.

In the case of Brazil, it had grown at 5.7 percent for seventy-five years before 1980. Now what's so striking is you go down to Brazil and they are happy if they can get growth up to 3 percent, 2.5 percent—that's a big success—and the government says, "We turned the economy around."

In Brazil, actually the last government succeeded in inventing a new concept. In East Asia, they had export-led growth; exports grew and the economy grew. Brazil in the last four years had a new concept, which I call export-led non-growth. Their exports doubled and the economy managed to stagnate—it grew a little bit, but not what we had hoped.

Stability, the same issue. A hundred countries have had crises in the last 30 years. It's more unusual not to have had a crisis than to have had one.

I could go on, but I think the picture is clear, that in many ways globalization has not fulfilled what people had hoped, and done it so systematically that you have to say it's not just a problem of one country, it's something about the system.

The next question I turn to is: Why has globalization not worked out as well? As I say, much of my analysis is looking at the specific issues, but I wanted to spend a few minutes talking about what I see as the broad problem.

That is very simple. To put it in a sentence, economic globalization has outpaced political globalization. Economic globalization has meant we are more interdependent, more integrated, as a global economy; and more integration, more interdependence, means there is more need for cooperative action. We have to do things together—set standards, set rules of the game. But we don't have the political institutions by which to do that democratically, nor the mindset to do it in ways that are fair. Too often, notions of fairness stop at the border.

I could see that very clearly when I was in Washington, where when we were talking about domestic policies we would always talk about what was efficient and what was fair.

Internationally, when we sent our trade ministers to Geneva, we never said, "Come back with a fair trade agreement." If they had done that, they would have been fired. We said, "Do the best deal for America," and what we really meant was "Do the best deal for those special interests who are breathing down our back and giving us big campaign contributions." That's why you see such inconsistencies.

The big issue in the Clinton Administration in the beginning years was access to health. One of the bad guys in that debate were the drug companies, the high drug prices that meant that many Americans could not get access to the medicines they needed, and we were really scrapping with the drug companies—you could see it. Internationally, we were in bed with the drug companies.

The Uruguay Round TRIPs Agreement, which is Trade-Related Intellectual Property, has nothing to do with trade. They just put "trade-related" because they had to put that in there to have it in a trade agreement. That was the real ingenuity.

There was already an intellectual property organization, called [WIPO](#), the World Intellectual Property Organization. But they wanted the trade ministers to do it because the trade ministers didn't know anything about intellectual property, and that meant they were much more vulnerable to the influences of the special interests.

They put in provisions that were explicitly designed to reduce access to generic medicines. Just to highlight why that's important, a generic AIDS medicine, for instance, costs under \$300 for a year's treatment. The brand name is \$10,000. If your income is \$500 a year or \$300 a year, or even \$5,000 a

year, you can't afford \$10,000 a year for the brand name. So when they were signing that agreement in Marrakesh, they were signing the death warrants for thousands of people in sub-Saharan Africa. That was the consequence.

I think what made things worse in many ways was the end of the Cold War, which in other respects was a great thing. During the Cold War, we had to compete for the hearts and minds of those in the Third World, or at least we wanted to make sure they didn't go to the other side.

So we gave money to [Mobutu](#) in the Congo, knowing that the money that we lent to him, gave to him, was going to Swiss bank accounts. It wasn't designed to help the country develop. It was to make sure that he wasn't on the other side. We would support [Pinochet](#) in Chile, knowing what he was doing, but again the principle was that the enemy of our enemy was our friend.

At the end of the Cold War, we had an opportunity to try to reframe the international economic order more in accord with our principles, our values, or we had the opportunity to say that, unfettered with competition from Russia, we could try to shape it in our economic interest.

Unfortunately, we chose the latter course. That was why we went ahead, not long after the end of the Cold War. It's not an accident that the agreement that comes out right after the end of the Cold War was so unfair to the poorest countries of the world. We were no longer competing for their affections.

The other reason I think that globalization has come out so poorly is that we were to a large extent "Pollyannaish" about what it would bring, that everybody would be better off. Actually, economic theory had always made clear that not everybody would win. What economic theory had said is that the gainers could compensate the losers—in other words, the country as a whole would be better off. If it were managed fairly, the country as a whole would be better off, so much better off that those who won could compensate the losers. But no one ever said that they would compensate the losers.

The theory predicted that there would be potentially very big losers. The way to see that most simply is to think through what it would mean if we had full integration, full globalization, in a model of the kind that the advocates of globalization always talk about, free markets working perfectly.

We know what that would mean. That would mean unskilled wages everywhere in the world would be exactly the same. That's what we mean by a fully integrated market. That means the unskilled wages in the United States and the unskilled wages in India would be exactly the same, roughly equal to the average of the two. That means that there would be huge downward pressures on unskilled wages in the United States.

Now, this is an obvious implication of full integration that none of the advocates of globalization have tried to advertise, for an obvious reason—because there are a lot of people who would be very unhappy knowing that this was happening.

The fact is that there are actually a number of forces that are simultaneously depressing wages at the bottom, or even the middle. I don't want to pretend that globalization is the only one—technology is another. But these forces are real, and they're not short term. In the United States, real wages at the bottom today are about 30 percent below what they were 30 years ago. So this is not a one-year trend. And it is not going to be reversed.

More disturbing is even in the middle in the last six years real incomes have fallen. So, while GDP in the United States is higher than it was six years ago, the median American is actually worse off than he was six years ago. You see a number of articles now talking about that.

And as I say, while there are a number of forces that have contributed to this, globalization is one of the forces, but it's one that people feel like they can do something about. Now, some people talk about globalization as being inevitable; it's like cod liver oil, that you just have to take it and swallow it; it may

be bitter, but you have to get used to it. But that's not true.

Globalization is measured by the ratio of trade to GDP or capital flows to GDP.

It was stronger before World War I than it was in the inter-war period. We all know about the [Smoot-Hawley tariffs](#), where we withdrew from globalization. If a majority of Americans feel—a majority of people around the world feel—that they are losing from globalization, there really is a risk of a backlash. So I think it behooves those who are advocating globalization to actually try to make sure that it is reshaped so that there are more winners and fewer losers.

When the young students in France went on protest last spring, they were protesting about the fact that wages and benefits were being lowered. The response was, "you have to do this because of globalization." Then they scratched their heads and they said, "Well, you told us that globalization was going to make us better off." They said, "How can lower wages and less job protections make us better off?"

Sometimes the answer will come back, "Well, you have to be patient." But then, of course, [Keynes's](#) famous quip comes to mind: "In the long run we're all dead." If we are talking about forces, that over 30, 40 years real wages have fallen by a third, that's a working lifetime.

So what I've tried to do is to sketch very briefly some of the underlying forces that are leading to globalization not working out in the way that it had been hoped. Let me try to talk now about how this plays out in a couple of specific contexts.

One of them is intellectual property. Why is intellectual property even on the table? Why is it a globalization issue? Well, it's a globalization issue because it was made a globalization issue. It was an issue where the United States said, "There have to be high uniform, or close to uniform, standards of intellectual property around the world." In the Uruguay Round, we forced all the countries to adopt our intellectual property standards. Therefore, it became a globalization issue because we were forcing that as a standard.

That is true of a lot of the areas of globalization. One of the complaints is that country sovereignty is being reduced; they can't have the intellectual property regime that they want, or other areas, because under globalization we have to have certain standards.

As an academic, obviously I have some sympathy with intellectual property. It's the way we get some of our rewards. I will tell you a little story that illustrates perhaps, though, my ambivalence.

About 20 years ago, I got a letter from a Chinese publisher wanting me to write an introduction to a pirated edition of my textbook. I was very enthusiastic about it. You know, I had written the book not only to make money, but also for influence, of having ideas. I figured if one-tenth of 1 percent of the Chinese read this book, that's a big audience. You are talking about a billion people, and with one-tenth of 1 percent you really can have some effect. So I went ahead, thought I would do it, and was very enthusiastic. But I thought before doing it I should check with my publisher, which was Norton, and they went ballistic.

As another example, around the same time I was in Taiwan for a conference and I had a little time to go to a bookstore. Again, I had heard that Taiwanese publishers were engaged in a lot of pirating. As I walked through the bookstore, I had a little debate in my mind: Would I be unhappier if when I got to the bookstore they had pirated my book and had stolen my property, my intellectual property; or if they hadn't stolen my book, because if they hadn't stolen my book, that meant that my ideas were not being disseminated, they had ignored me. By the time I got to the bookstore, I had finished the debate and I decided that I really wanted them to have stolen my book. And they had. So I actually felt very pleased.

Academics believe in the importance of spreading ideas. Thomas Jefferson talked about it much more

poetically than I can. It's in the Jefferson Memorial. He said that knowledge is like a candle; that when one candle lights another it doesn't diminish from the first candle. So the way economists say this is that knowledge is a public good—zero marginal cost, to put it in very unpoetic terms.

What does that mean? That means that efficiency requires that you not restrict the use, you disseminate it, you let everybody use it. Yet, the intellectual property system—the patent system, copyright—is based on restricting use.

This is very different from ordinary property. Property rights—many of you know, the big discussion of property rights—are associated with increasing economic efficiency. Intellectual property rights are concerned with decreasing economic efficiency, restricting use of something that is a public good. But it's even worse than that; they give a monopoly power. And we all know the enormous distortions associated with monopoly.

So here we have in the Constitution of the United States a provision saying you're going to create intellectual property that is going to restrict something that is a public good, and create an enormous monopoly distortion.

Why do you do it? Well, you do it because you hope that it will somehow stimulate innovation. Intellectual property is extremely complex—what can be patented, how long it can go, the scope, the conditions. The most important ideas can't be patented. Einstein's idea on $E = mc^2$ could not be patented. In economics, one of the most important ideas in recent years has been the theory of asymmetric information, and that can't be patented. So a lot of the most important ideas can't be patented.

If you don't get it right, you get the disadvantages of monopoly but not the advantages of innovation. The Council of Economic Advisers and the Office of Science and Technology in the White House both came to the conclusion that TRIPs had got it wrong, that we were getting monopoly but not innovation—in fact, it can actually stifle innovation.

I explain it in the book by giving two stories. The two most important innovations in the 19th century were the automobile and the airplane, and both were almost stifled by the patent system. It was just luck, and in one case the government taking over, saying, "We won't let the patent lawyers destroy us," because of World War I, where they seized the patents back and formed a patent pool, that we have the airplane today.

So patents can have a very negative effect. Right now they are having a very negative effect in the software industry.

Why is this important? Well, as I said before, in the area of drugs the intellectual property regime was designed to make generic medicines less successful—in other words, less affordable to those in the developing countries. And it worked. But it worked in the sense of denying access to medicine.

Did it work on the other side? We got the disadvantages of monopoly. What about innovation? The answer is almost none. The drug companies spend far more money on advertising and marketing than they do on research, far more money on research on lifestyle drugs, like hair or other things, than they do on lifesaving drugs, and almost no money on the lifesaving drugs that are of concern to the developing countries, with hundreds of millions of people affected by malaria and other tropical diseases.

In the book I describe an alternative system for financing innovation. Innovation doesn't come costlessly, so you can't just say, "Let's just have people innovate." It requires incentives; it requires finance. But a far better system is a prize system, where you ascertain what are the diseases that we care about, malaria and diseases that affect hundreds of millions of people, and you say, "If you discover that, you'll get a big prize. If you discover something less important, you get a small prize. But then we'll use the force of the market economy to distribute it at as low a price as possible." As opposed to the current system, where you use monopoly to reduce the production and raise the price, this is based on increasing

the production and lowering the price. I am going to argue this is a far better way of organizing our health care innovation system than the current one.

What I've tried to do is I go through each of the other areas. One of the ones I talk about, for instance, is global warming. Kyoto was a major success. But 75 percent of the emissions are left out, so clearly it is not going to work. I give some proposals of how we can make a global system for global warming actually work.

I talk about natural resources. Why is there a natural resource curse, where, on average, countries with more resources grow more slowly rather than faster? A real paradox. I suggest what we can do to convert resources into the blessing that they ought to be.

Global financial instability, an enormous amount of it everywhere. It has not gone down; it has gone up. Some of you may have seen I had an Op-Ed, a very brief one, in *The New York Times* two days ago, where I tried to talk about why the kinds of things on the table are only focusing on systematic relief, likely to make things even worse, and why you need a systemic reform.

So those are the kinds of things that I tried to talk about in the book.

Let me just conclude. One of the criticisms I've sometimes gotten is aren't I too Utopian, too optimistic, about reforms. I describe all of the problems and the forces that lead to them. Why do I think change is going to happen?

I think the answer is actually fairly simple. Change is going on. Globalization is a dynamic force, it's a fluid force. The question isn't whether there will be change; the question is whether when there will be a crisis, we respond to the crisis by some patchwork; it will work for a little while, then we'll have another crisis. Or whether we try to identify the problems, think rationally about them, realizing that we have at various times opportunities to make some of these reforms, and then try to do it in a more systematic way.

This book is offered on the written idea that there are at least a number of these changes that are feasible, would make a difference, and, given the enormous forces of dissatisfaction with globalization, actually I think there could be a political consensus behind it. So I am optimistic that we actually can make at least some of these changes that would make globalization work, or at least work a lot better than it has been.

JOANNE MYERS: In the true Nobel tradition, I think you lit candle upon candle to give us a dynamite presentation. I thank you.

Questions and Answers

QUESTION: Thank you very much, Mr. Stiglitz. You mentioned Africa very briefly, but on the receiving end of all these problems. In parallel to [Kananaskis](#) and Gleneagles, the African leaders have initiated what is called [The New Partnership for Africa's Development](#) (NEPAD). A lot of people, economists and others in Africa, are quite cynical about NEPAD, or skeptical if you like, very doubtful, partly because they feel that they have been sort of tricked by the Western countries, the developed countries, that it is not going to work, it is not going to really lead to the kind of changes they want.

I wonder if you could comment, first, whether you think [President Mbeki](#), [President Obasanjo](#), and so on are on the right track—NEPAD is all about good governance, economic reform, democratization, better economic policies—and whether you think that the developed countries are able to respond or are using any of your ideas. Is globalization going to help Africa?

JOSEPH STIGLITZ: That's a very good question. If you look around, the one place in the world that has

been least benefited by globalization—and I would say has been perhaps in some respects most hurt by it—has been Africa. The number of people in absolute poverty in Africa today is twice the number of what it was 20 years ago. So this is the real case, the test case, of whether we can make globalization work.

I think that the reforms, the kinds of things that NEPAD is doing, are clearly moves in the right direction. I think the real question is: Is it enough?

Let me share a little sense of some of the reasons I have for pessimism, why I don't think it's enough. There are a number of countries in Africa that have put in place good economic policies in the way that is well understood—strong macroeconomic policies, gotten inflation down, gotten budgets in order, all the things they are supposed to do; even gotten their growth up to 4, 5, 6 percent—but they still find it very difficult to attract foreign direct investment.

They haven't had the kind of rush-in that East Asia has had, India or China, and you can understand why. There is a regional effect. The level of instability in the region as a whole is very high and that spills out from one country to another. That's one of the reasons why it is important to try to fix the problems of all the countries.

Now, what are a couple of the problems that I don't think we've really fixed adequately?

First, we really haven't given adequate opportunity. We have continued to subsidize cotton. That drives down the price of cotton. If you are in one of the semi-arid countries, like Mali or Burkina Faso, you don't have a lot of different industries you can go into. We subsidize 25,000 rich American farmers by \$3-to-\$4 billion a year and the effect of it is to depress the prices of cotton and push 10 million sub-Saharan farmers' incomes even lower, below subsistence.

Some of the things that we have done in the [African Growth and Opportunity Act](#) we're even talking about taking away. We've said, "Okay, beginning in 2008 you have to begin to buy American cotton. So you can export your textiles to the United States, but you have to use American cotton. But if they use American cotton, they are not going to be competitive, and their own farmers are not going to be able to sell their cotton.

But it's much broader. I describe some of the ways our— when I say "our," it's not only U.S. but EU—trade policy is designed to stop development. I mean there really was a lot of cleverness. For instance, one of the things that we do is we often allow unfinished goods, agricultural goods, into our country free, but processed goods face a high tariff. It's called escalating tariffs.

So just think about it. Let's say you grow tomatoes. Tomatoes you can export with zero tariff, but canned tomatoes have a 20 percent tariff. And let's say canning is half the value of the canned tomato. That means the effective tariff is 40 percent, because the tariff is only on the canning. So when you see average tariff rates on industrial goods, they mean absolutely nothing. With a system of escalating tariffs, the tariff is designed to stop Africa from going into the next stage of production, agro-processing.

One of the reasons that so many countries in Africa have not done well is this natural resource curse that I talked about before. People talk about bad governance. Why is there bad governance?

Quite often, one of the reasons is governments are being bribed. It's very easy to be bribed. If your president gets a salary of \$10,000 a year and somebody comes along, and the country is sitting on billions of dollars, an oil company makes money by giving a small bribe—\$100,000, ten times his income—either to get the resources at a lower price or to say, "Look the other way when it comes to environmental regulations or working conditions."

Some firms say, "It's our responsibility to give bribes." Why? "Our responsibility is to our shareholders. Maximizing profits means minimizing cost; minimizing cost means getting these resources at the lowest possible cost."

Now, it has been made a little bit more complicated by the [Foreign Corrupt Practices Act](#), but American companies have shown a high degree of ingenuity at finding out how to get around that. We can give you a list of the companies that have been most clever in doing that.

There are a number of companies that have shown a lot of responsibility. Norsk Hydro in Norway, BP, have actually in the case of Angola gone and said, "We want to be transparent. We want to make sure that everybody can see every check we write to the government." The Angola government said, "If you do that, you're out of it."

But there is a very big initiative that the British government has taken a lead role in, called the [Extractive Industries Transparency Initiative](#). But it doesn't yet have teeth. A few countries, like Nigeria, have bought into it.

In the book, I give a simple reform that would make it happen overnight: you simply say, "no tax deduction for anything that's not transparent."

It's hard to believe, but a little over a decade ago, when I was the U.S. representative ministerial to the [OECD](#) [Organisation for Economic Co-operation and Development], one of the things that I fought for was the elimination of tax deductibility for bribes. Several countries gave a tax deduction for bribes, which meant, in effect, their government, their citizens, were paying half the cost of the bribe if the tax rate was 50 percent. The government was, in effect, encouraging bribery.

I was in these debates. You could make strong arguments. Again, they wanted a competition to the bottom, a race to the bottom. We now have an OECD agreement not to do that. The OECD has been very, very good.

Also, one of the other reasons why there is so much corruption? We facilitate it by secret bank accounts. You steal your money, you put it in the Cayman Islands—the Cayman Islands is not a good place for banking because the weather is better—but then, when you get kicked out, you have your money right next to you when you lie on the beach.

The OECD made a convention to restrict bank secrecy, but in August of 2001 the U.S. government vetoed it. It wanted to have a race to the bottom. It said, "We want competition."

But, of course, in September of 2001, what did we discover? These secret bank accounts are also used by terrorists. Since then, what we have shown is that we can stop secret bank accounts, but only for terrorists.

I was in one of these bank havens. I don't know why they occasionally invite me to give these lectures, because I give them the sermon about how bad they are. I think maybe they feel it's cathartic. But after I had given this lecture, a couple of them obviously were disturbed. They came up to me and they said, "You know, you've really been too harsh on us. We don't do bank secrecy for money laundering, drugs, corruption. We don't do it for any of those things. We only do tax evasion." I asked them, "How do you know?" They said, "Because we ask them."

QUESTION: Thank you for a very interesting exposé, quite up to the standards that one would expect of a Nobel Prize winner. I liked very much that you stressed all over in your exposé that globalization is something that is continuously changing. It reminds me of what David Rockefeller once said about capitalism. He said, "Capitalism is a moving target." So is globalization.

China has been mentioned here. There is no discussion on globalization in which China doesn't figure. I would like to ask you a question. Some economists are very worried that the Chinese economy is being overheated. My Prime Minister [of Sweden], who will be Prime Minister only until tomorrow, once said to me that "We are all very lucky about the Chinese growth, because that is or will soon be the motor. If

there will be a drastic reduction in Chinese growth, that would be dangerous for the world economy." So it would be interesting to hear your opinion on that.

You mentioned a concrete personal example of China. We Swedes are very steadfast free traders. Free trade has served us very well since the Second World War. We have now been in the last five years subject to a different kind of globalization. Many factories have closed in Sweden. They have moved to Eastern Europe, and even more have moved to China. The companies are doing very well, but we are losing job opportunities in Sweden.

Four months ago, for the first time, the Swedes saw an example that globalization could be two-way traffic. We have a beautiful little city, called Kalmar, on our Baltic Sea coast, with a beautiful medieval castle, 20,000 inhabitants. Very dreary. Factories have closed. They thought of closing the airport. They have been subsidized by the state, but we have reached the level allowable by the European Union. Then, some months ago, a delegation from China came, and they are going to invest \$1 billion in Kalmar to construct huge warehouses for a hundred Chinese companies to show their products for clients from all over Europe and from Russia. So that is a very interesting little example.

My last question: Do you know is there a Chinese economist of Nobel Prize timbre?

JOSEPH STIGLITZ: You raised a large number of issues. Let me go through them fairly quickly.

First, I want to say that Sweden and Scandinavia more generally have managed globalization probably better than almost any other part of the world. They have tried to minimize the number of losers by having strong labor market policies, to help move people who lose jobs into other jobs, keeping full employment so there are jobs into which they can move, high levels of investment in education, technology. In a way, it's an overall market showing that there is an alternative way of managing globalization that tries to reduce the number of losers and increase the number of winners.

Sweden has also been one of the few countries that has been a model of, I would say, also ethical globalization on a number of the issues that I talk about in what we call fair trade. Your Trade Minister for a number of years, Leif Pagarotsky, was one of the most vocal opponents of dumping duties and a whole set of what are called non-tariff barriers, which are really targeted again at the least-developed countries, to stop their goods coming into the advanced industrial countries, a real abuse. As we've taken down tariffs, we have moved to non-tariff barriers, even in a worse form than tariffs. Sweden has taken the lead in trying to resist these.

Sweden was also very active in one of the important initiatives that Europe took, this ["Everything But Arms" initiative](#) [EBA], where they opened up their markets to the poorest countries of the world. It hasn't worked out quite as well as one had hoped because of technical reasons, and there is a lot of debate about that.

But there is a fundamental change in the attitude. Rather than saying, "We're going to base it on reciprocity," what it said is, "Poor countries are not in the same position as the rich." There are differences that are so obvious. You know, if your income is \$200 and your income is \$20,000, there's a difference. They said, "We don't ask for reciprocity. We'll just open up our markets unilaterally." A very important principle.

The United States, cynically, responded by saying, "We'll open up 97 percent of our markets." What did that mean? It was an initiative that I called the EBP, "Everything But what you Produce." Bangladesh could export jet engines, airplanes, everything that they didn't produce, to the United States. But when it came to textiles, apparel, the things they did produce, they couldn't export those. So within that 3 percent was included 60 percent of what Bangladesh produces, 100 percent of what Cambodia produces. It was the most cynical gesture—I don't know whether you could call it a gesture, but it was cynical—and I think in the end it backfired.

I want to say that Sweden played a very important role in getting this "Everything But Arms" initiative through in a complex European context. So I really do want to compliment Sweden on what it has done for fair trade.

On the issue of the two sides of globalization, I'm from Gary, Indiana, which is a steel town that is going through its 100th birthday this year. It represents the history of industrialization in the United States. Mr. Gary was the Chairman of the Board of U.S. Steel, so it was a city that was named after him. It was a company town, founded in 1906. It rose and then declined. It is an amazing story in 100 years.

In the area with a large number of steel mills, most of them are going out of business. But one of them that is being saved is being saved because it was bought by Mittal, the Indian steel company, and it turned it around. So this Indian entrepreneur was able to make an American steel mill work when an American could not do it.

China is, obviously, a major change in globalization. Its success has brought increased income to a fourth of humanity. It has been the engine of economic growth. They are, obviously, very worried about being overheated. Their government has actually worked very hard to try to stop it from being overheated. So they are worried about it too. They are not worried about the global consequences; they are worried about their own consequences. I think that they are doing actually a very good job so far.

It's very difficult to manage this kind of economy. They are growing at probably faster than 10 percent. But they are succeeding at trying to dampen it down—not a soft landing. They want to continue to grow at 8-9 percent, which we would call fantastic, but they are worried about overheating.

There are two other things that I want to highlight, I think, especially for the international community. The first is that China has begun to play a much more important role in the developing countries. It has begun to take seriously its role as a global player.

I was talking to the Prime Minister of Ethiopia the other day. China is behind their recent success. They are selling sesame seeds and other products to China. That is really having a very big effect on their economy.

So this Chinese market is not only the engine of growth for the whole world; they are directing a lot of their attention to saying, "What can we do to help Africa?"

I mentioned before that the end of the Cold War meant there was no longer competition. There now is a new game being played, a very important geopolitical game, that we are, I think, losing right now. That's the positive side, that it is helping Ethiopia.

The negative side—all of you know about the problems in Darfur. We give lectures. A lot of universities such as Amherst College have divested from Darfur. But the problem is that Chinese, and Indian now, oil companies are operating in Sudan. Very little that we can do. We give them the lectures. They say, "When it was convenient for you, you all looked away on these human rights issues. Now you've gotten religion just in time that we're beginning to get interested in these resources." A little bit of hypocrisy, they suggest.

I don't think that's what's at issue here. What is at issue is genocide. But I think it is obviously going to make much more complex some of these international attempts to make the global order work better.

JOANNE MYERS: Unfortunately, our time is up. I want to thank you for really an extraordinary presentation.

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