



MAKING GLOBALIZATION WORK
FEATURING JOSEPH E. STIGLITZ, UNIVERSITY PROFESSOR AND
CHAIR OF THE COMMITTEE ON GLOBAL THOUGHT, COLUMBIA UNIVERSITY

World Leaders Forum

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As globalization becomes a more influential force in the world economy, many economists and policymakers have attempted to address some of the negative consequences of the changing global economic paradigm. On September 18, 2006, Columbia University's World Leaders Forum, together with the Heyman Center for the Humanities, the Committee on Global Thought and the Initiative for Policy Dialogue, hosted a discussion of Joseph E. Stiglitz's new book, Making Globalization Work. Professor Stiglitz is a Nobel Prize-winning economist and chair of Columbia University's Committee on Global Thought.

The discussion began with brief opening remarks by Lee C. Bollinger, president of Columbia University. He praised Joseph Stiglitz's new book as a description of how to overcome the negative effects of globalization and "live in a fair, just and desirable world." Following President Bollinger's remarks, Professor Stiglitz delivered a keynote address in which he summarized the arguments contained in his new book. He was followed by a panel of three speakers, who also commented on his book. The speakers were Nancy Birdsall, president of the Center for Global Development; George Soros, founder and chairman of the Open Society Institute and Soros Fund Management LLC; and Tina Rosenberg, Pulitzer Prize-winning author, contributing writer for the *New York Times Magazine* and former editorial writer for the *New York Times*.

Remarks by Joseph E. Stiglitz

Professor Stiglitz's book has two primary purposes. First, it aims to describe how globalization is not working well. Second, it provides recommendations for how to make globalization function better in the short run and the long run. Professor Stiglitz believes that globalization can "live up to the potential and promise that it had when the current round of globalization began years ago."

How Globalization Works Differently Than Envisioned 15 Years Ago

Originally, globalization was supposed to create a convergence between rich and poor countries. Instead, despite the integration of China and India into the global economy following decades of barriers, the opposite has happened. In Mexico, the implementation of the North American Free Trade Agreement in 1994 has seen that country's economic gap with the United States increase.

Financial markets have also functioned differently than originally envisioned. Despite increased levels of foreign direct investment since the start of globalization, capital has flowed primarily from poor countries to rich ones. At the same time, financial market risks have increased more markedly than originally thought. In particular, interest and exchange-rate risk have become bigger problems for developing countries. This continuing instability has led to a continuation of frequent economic crises in developing countries. During the last 30 years there have been approximately 100 crises, a number that could have been even higher had China and India liberalized their economies. External debt also continues to overburden many developing economies. This reflects the fact that debt is a systemic problem and no amount of debt relief will overcome the fundamental economic troubles of developing countries.

Economic globalization has surpassed political globalization. While issues of fairness enter into the formation of many domestic economic policies in the United States, international economic policy exclusively reflects what is best for major contributors to political campaigns. As a result, an unfair international economic regime has evolved, characterized by trade policies and structural adjustment programs that are damaging to developing countries.

According to Professor Stiglitz, these inequalities reflect the lack of leadership by the United States. The time and energy freed by the end of the Cold War created an opportunity for the United States to address the problems of developing countries. Instead, the United States has focused on its own political economic interests rather than global interests.

Some U.S. behavior has reflected the widely held assumption that everyone would benefit from globalization and that there was no need to worry about potential losers. According to this thinking, winners "could compensate losers," but there was no guarantee that they would do so. As a result, developed nations used globalization as an excuse to reduce economic protections in developing countries without worrying about the losers. Professor Stiglitz

referred to this phenomenon as a “problem to be dealt with with psychiatry,” because the solution depends on changing the entire perspective of developed countries.

What Is at Stake

The current brand of globalization has many critics, as the riots in Seattle in 1999 showed. Real wages and median family income in the United States have declined over the past 30 years because of globalization and technological advances. It is necessary to protect against the negative effects of globalization, or globalization will continue to be challenged or even reversed. As evidence of how fickle globalization can be, it is important to keep in mind that in many countries, ratios of trade to GDP and capital flows to GDP were higher before World War I than they are now.

Solutions: Intellectual Property

The existing system of intellectual property is something that can be changed to make globalization work better. Professor Stiglitz’s thinking on this topic was influenced greatly when he was contacted by someone in China to see if he was interested in writing the introduction to the pirated copy of his last book. As much as the copyright violation bothered him, he took some satisfaction from the existence of a pirated edition. Most important ideas are not able to be protected. When the current market structure restricts the use of a public good where the marginal cost is zero, it is not functioning well.

The current intellectual property regime can stymie innovation. As examples, he cited the cases of the automobile and airplane. If the underlying technology for the automobile and airplane had been patented at the beginning of the 20th century, cartels would have formed that would have made these inventions prohibitively expensive. This would have fundamentally changed the world in which we live today.

Today, pharmaceutical companies are using intellectual property to prevent distribution of their products around the world. They also are not conducting research on diseases that affect developing countries.

As a solution, Professor Stiglitz proposes that governments find a way to incentivize research that improves the lives of people in developing countries. Specifically, a prize for innovation should be established that encourages development of sorely needed drugs. Once drugs are developed, the world could rely on market forces for pricing and distribution.

Professor Stiglitz concludes that it is important to address globalization’s problems by thinking systematically rather than creating patchwork solutions that work only for the

current crisis. Devising solutions like the proposed prize for innovation will enable us to make globalization function better, promote environmental protection and improve access to medicine.

Remarks by Nancy Birdsall

Inequality and Its Consequences

Nancy Birdsall spoke on the subject of inequality. She pointed out that, in contrast to other books on globalization, Professor Stiglitz's book uses words such as "equity," "inequality" and "fairness" numerous times. What makes this book so impactful is that it does not use these words in a populist or socialist manner. Instead, he defends globalization as something that can be fair and just.

Inequality is one of the most important consequences of globalization. The middle class is virtually nonexistent in most developed countries, she argues. In theory, open markets should reduce inequality, but this has so far not been the case.

Poor governance, Dr. Birdsall claims, leads to limited access to capital and low levels of education, both of which contribute to inequality. Inequality, in turn, creates conditions that undermine accountability, trust and social capital. All of these conditions then decrease economic growth. Taiwan and South Korea after World War II exemplify the possibilities generated by good governance. These countries redistributed land, which decreased inequality and laid the foundations for economic growth. If global markets do not work well—as is currently the case with globalization—the poor and middle class will continue to end up the worse for it.

Remarks by George Soros

George Soros declared that Professor Stiglitz's book is a "clear exposition of the problems with and remedies for globalization." The book presents three new issues related to globalization, he said.

First, it discusses intellectual property. Professor Stiglitz proposes a prize system in concert with a price system that would lead to the development of more drugs at lower prices. Second, it discusses a democratic deficit in the world at the international and domestic level. Currently, individual countries suffer from corruption, and international institutions do not distinguish between countries with good and bad governance. Third, it discusses the importance of lifting the "resource curse," by which some countries are overdependent on natural resources. Transparency in developing countries should be increased by creating revenue watchdogs to monitor what happens to resource revenues.

Lastly, Mr. Soros mentioned an issue that he believes is paramount: asymmetric information leads to much of the imbalance between the developing and developed worlds. Although the way in which investors and countries anticipate the future depends on their bias, it is also important that all parties have the same information.

Remarks by Tina Rosenberg

Tina Rosenberg recounted how globalization's initial attraction was that it aimed to reveal market forces and remove distortions. Her main concern is how to remedy some of the obstacles that are keeping globalization from working well.

She believes that the movement against sweatshops is doing more harm than good. There is nothing that can be done to stem the tide of low-cost labor. The wages that U.S. protesters complain about are a step up for workers in developing countries.

Ways to improve globalization, Ms. Rosenberg argued, include reducing agricultural subsidies, extending the global reserve system and permitting barriers for infant industries in developing countries. In order to accomplish these and other goals, pressure is needed from all of us.

She cited two examples of success. The first was when Yale students successfully protested against Bristol-Meyers, resulting in the production of generic drugs for a drug that had been developed using a patent from Yale. The second example was debt forgiveness. Debt has been forgiven in some third world countries. However, even the effect of this continues to be damaged by the special-interest provisions that are slipped into U.S. trade bills with developing countries. The public, Ms. Rosenberg warned at the end of her speech, must be wary of the fine print that congressional trade bills contain.

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