To Have and Have Not

Fifteen years ago, the world seemed headed irresistibly toward economic integration. Developed, developing, formerly Communist and even still-Communist nations (like China and Vietnam) had embraced markets and plunged into the global economy.

Joseph E. Stiglitz, a former Yale, Princeton and Stanford professor, spent most of the 1990s atop the commanding heights of this globalizing economy, first as the chairman of Bill Clinton’s Council of Economic Advisers and then as chief economist at the World Bank. After returning to academia with a position at Columbia, Stiglitz became one of three recipients of the 2001 Nobel Memorial Prize for his research on the economics of information.

Now, as enthusiasm about economic integration has waned, Stiglitz has emerged as one of globalization’s most prominent critics. Even while he was at the World Bank, he clashed repeatedly with his counterparts at the International Monetary Fund and the United States Treasury over what he called their “market fundamentalism.” His “Globalization and Its Discontents” (2002) included sharp criticisms of international economic institutions, in particular the I.M.F. for its handling of the East Asian financial and currency crises of 1997-98.
The book, which sold widely, was hailed by globalization skeptics and hotly debated by economists, some of whom found Stiglitz’s criticisms exaggerated, unfair and unduly personal. Still, the novelty of an eminent economist and former high-ranking public official making a passionate assault on the international economic order put Stiglitz at the center of the globalization debate.

His new book extends the discussion of “Globalization and Its Discontents” but largely avoids the polemical tone. One can, in fact, judge these two books by their covers. The earlier work showed a flame streaking across a stark black background. The soft white jacket of “Making Globalization Work” features three earth-eggs resting in a vulnerable nest. Stiglitz appears to have gone from flamethrower to mother hen. Even the title suggests a transition from flashy dissent to constructive engagement. And indeed, this book is a concise and enlightening treatment of international economic problems, along with much less convincing proposals for reform.

Stiglitz walks the reader through a series of issues, from trade and intellectual property rights to global warming and the role of the multinational corporation. Each of the book’s chapters frames a problem, provides some analysis and proposes solutions. On page after page, Stiglitz argues that globalization holds out great promise as a force for good, but that the rules of the present international economic order are designed and enforced by the rich nations to serve their interests. As a result, they are inequitable and inefficient.

Developed countries manipulate international trade rules to protect their factories and farmers from more efficient producers in the developing world, Stiglitz tells us. Multinational corporations evade responsibility for the damage they do. Meanwhile, the international financial system, led by the I.M.F., rewards improvident lenders (the wealthy) and penalizes hapless debtors (the poor).

Stiglitz often invokes the concept of negative externalities: the costs that some individuals, firms or nations impose on others. A factory that skims on pollution control, for instance, may increase its profits, but it harms the rest of society. The polluter is responding to incentives without having to pay the cost of its activities. Similarly, interest groups in developed nations benefit from favorable treatment by their governments, but these favors victimize people in developing nations who are trying to compete. It is bad enough, Stiglitz says, that thousands of wealthy American cotton farmers get billions of dollars in government subsidies; it is even worse that this depresses the world price of cotton, further impoverishing millions of African cotton farmers.

When the pursuit of private gain causes social losses, government should force the perpetrators either to stop or to help repair the damage, Stiglitz argues. This is the rationale for pollution control, fisheries management, public health restrictions and other familiar regulatory measures. “Making Globalization Work” calls repeatedly for action to avoid or redress the impact of externalities — in trade, corporate activity, the environment and financial and monetary affairs.

Stiglitz uses his command of economic logic to good effect, offering clear discussions of dozens of complex issues, from patent law to abuses in international trade. Many critics complain that drug companies overcharge poor countries, but Stiglitz goes further and makes a convincing case that this is not only immoral but also economically inefficient. Poor countries should be charged less than rich countries: if people willing to pay for medicines are unable to buy them, an existing demand goes unmet, which, in economic terms, is wasteful. Drug companies’ pursuit of private gain results in an inefficient allocation of resources and a social loss. Stiglitz won the Nobel for exploring how uncertainty and poor information can make markets fail. Here he takes evident pleasure in showing how an examination of incomplete markets can make corrective government policies desirable.

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