The Governance of Globalisation
Pontifical Academy of Social Sciences, *Acta* 9, Vatican City 2004
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COMMENTS ON JOSEPH E. STIGLITZ ‘GLOBALIZATION AND THE WORLD ECONOMIC INSTITUTIONS’ AND ‘ETHICS, MARKET AND GOVERNMENT FAILURE, AND GLOBALIZATION’

JUAN J. LLACH

I am very glad to have the opportunity to comment on the presentation of Professor Stiglitz to our Academy. His contributions have been very relevant, both to increase our knowledge of the globalized world we are living in and to find a more proper design for world economic institutions and policies.

As a framework of my comment I will use the following typology of four possible states of the world in these times of globalization.

Table. TRADE AND FINANCING: FOUR ALTERNATIVE FORMS OF GLOBALIZATION

		Freedom to trade	
		No	Yes
Financial loosening	Yes	NW Second best 1	NE First best: utopia
	No	Today's world SW	Second best 2 SE

[*] Editors’ note. The first paper was circulated but not published here. It is not published here.

They arise from the combination of two dimensions. Although they are, in fact, continuous variables, they are presented as dichotomies just to simplify the analysis. In the horizontal axis we have *freedom to trade*, a clear-cut concept. In the vertical axis we have *financial loosening*, a less precise but anyway useful concept. It includes political economy decisions like debt forgiveness, lower interest rates, softer conditions of the international financial institutions (IFIs) lending or their support to ordered processes of debt restructuring for emerging economies.[1]

The SW quadrant reflects the current state of affairs. The trade liberalization process in the context of the WTO is having serious problems to progress, particularly because of the opposition of the majority of developed countries to fully liberalize food and agricultural trade – including the removal of subsidies – or because of their misleading pressures regarding intellectual property rights.

Looking at the typology, the most important question is, which would be the best way to improve the unfair current situation?[2] Theoretically, there are three possible ways. The first is the straight one, symbolized by the diagonal black arrow in the Table, that will 'move' the world to a utopia of free trade and financial loosening. The only problem with this way is that the probability of its occurrence is almost nil.

As a result, in the real and unfair world we are living in, only two alternatives remain. The first is to move to the NE quadrant, getting a financially looser world, but still very closed to trade. This seems to be the preferred recommendation of Prof. Stiglitz, not only in his presentation to this Academy but also in his recent book.[3] True, he mentions the issue of unfair trade in his two papers. But a stronger emphasis is put on questions like democratization of world economic institutions, the negative role of IMF in advising developing countries – for instance, suggesting contractionary policies – or debt forgiveness. Even in the parts of his paper where he refers to trade issues, his analysis tends to privilege financial considerations.

[1] Argentina's default was, up to a certain point, the result of the New Washington Consensus that considers that default is not a bad thing, after all. But it was, at the same time, a typical case of disordered and very costly debt restructuring process. On the contrary, an eventual support from the IFIs to Brazil to allow it an ordered debt restructuring could be the first case of a new kind of preventive intervention of these institutions.

[2] A situation that I described in 'Globalization and Governance: The Flip Side of the Coin', *Globalization: Ethical and Institutional Concerns*, Proceedings, Seventh Plenary Session, 25-28 April 2001, Pontifical Academy of Social Sciences.

[3] Joseph Stiglitz, *Globalization and its Discontents*, Norton, 2002.

> Asymmetric trade liberalization makes the difficulties of adjusting to trade liberalization all the greater for developing countries; but when the IMF policies and problems in global financial markets result in developing countries facing high interest rates, liberalization is especially likely to result in increased poverty and lower growth: rather than resources being redeployed from low productivity protected sectors to high productivity export sectors, they simply move from the protected sectors into unemployment.

Another evidence of this approach can be seen in his analysis of the Argentine crisis. In spite of its importance, he does not mention the role of food and agricultural protectionism as the most important obstacle in the redeploying of resources from inefficient to efficient sectors and, as a consequence, in the increase in unemployment.

The second alternative way is to move to SE from the SW quadrant, i.e., putting the free trade issue in the first place. I think that this is the real, structural, long term solution for the economic growth of developing countries that are food and agriculture producers. Without giving to them the possibility of a permanent increase in production and trade, financial problems will appear again, even after a first move to financial loosening. The danger is, perhaps, even greater. A political economy of financial loosening will create in developed countries and IFIs the feeling that all they could do for the developing countries was done, and that a sincere trade liberalization can wait once again.