<u>Making Globalization Work</u> [J. Stiglitz Column 06 September 2006]

I have written repeatedly about the problems of globalization: an unfair global trade regime that impedes development; an unstable global financial system that results in recurrent crises, with poor countries repeatedly finding themselves burdened with unsustainable debt; and a global intellectual property regime that denies access to affordable life-saving drugs, even as AIDS ravages the developing world.

I have also written about globalization's anomalies: money should flow from rich to poor countries, but in recent years it has been going in the opposite direction. While the rich are better able to bear the risks of currency and interest-rate fluctuations, it is the poor who bear the brunt of this volatility.

Indeed, I have complained so loudly and vociferously about the problems of globalization that many have wrongly concluded that I belong to the anti-globalization movement. But I believe that globalization has enormous potential – as long as it is properly managed.

Some 70 years ago, during the Great Depression, John Maynard Keynes formulated his theory of unemployment, which described how government action could help restore full employment. While conservatives vilified him, Keynes actually did more to save the capitalist system than all the pro-market financiers put together. Had the conservatives been followed, the Great Depression would have been even worse and the demand for an alternative to capitalism would have grown stronger.

By the same token, unless we recognize and address the problems of globalization, it will be difficult to sustain. Globalization is not inevitable: there have been setbacks before, and there can be setbacks again.

Globalization's advocates are right that it has the *potential* to raise everyone's living standards. But it has not done that. The questions posed by young French workers, who wonder how globalization will make them better off if it means accepting lower wages and weaker job protection, can no longer be ignored. Nor can such questions be answered with the wistful hope that everyone will someday benefit. As Keynes pointed out, in the long run, we are all dead.

Growing inequality in the advanced industrial countries was a long-predicted but seldom advertised consequence of globalization. Full economic integration implies the equalization of unskilled wages everywhere in the world, and, though we are nowhere near attaining this "goal," the downward pressure on those at the bottom is evident.

To the extent that changes in technology have contributed to the near stagnation of real wages for low-skilled workers in the United States and elsewhere for the past three decades, there is little that citizens can do. But they *can* do something about globalization.

Economic theory does not say that everyone will win from globalization, but only that the net gains will be positive, and that the winners can therefore compensate the losers and still come out ahead. But conservatives have argued that in order to remain competitive in a global world, taxes must be cut and the welfare state reduced. This has been done in the US, where taxes have become less progressive, with tax cuts given to the winners – those who benefit from both globalization and technological changes. As a result, the US and others following its example are becoming rich countries with poor people.

But the Scandinavian countries have shown that there is another way. Of course, government, like the private sector, must strive for efficiency. But investments in education and research, together with a strong social safety net, can lead to a more productive and competitive economy, with more security and higher living standards for all. A strong safety net and an economy close to full employment provides a conducive environment for all stakeholders – workers, investors, and entrepreneurs – to engage in the risk-taking that new investments and firms require.

The problem is that economic globalization has outpaced the globalization of politics and mindsets. We have become more interdependent, increasing the need to act together, but we do not have the institutional frameworks for doing this effectively and democratically.

Never has the need for international organizations like the IMF, the World Bank, and the World Trade Organization been greater, and seldom has confidence in these institutions been lower. The world's lone superpower, the US, has demonstrated its disdain for supranational institutions and worked assiduously to undermine them. The looming failure of the Development Round of trade talks and the long delay in the United Nations Security Council's demand for a ceasefire in Lebanon are but the latest examples of America's contempt for multilateral initiatives.

Enhancing our understanding of globalization's problems will help us to formulate remedies – some small, some large – aimed at both providing symptomatic relief and addressing the underlying causes. There is a broad array of policies that can benefit people in both developing and developed countries, thereby providing globalization with the popular legitimacy that it currently lacks.

In other words, globalization can be changed; indeed, it is clear that it *will* be changed. The question is whether change will be forced upon us by a crisis or result from careful, democratic deliberation and debate. Crisis-driven change risks producing a backlash against globalization, or a haphazard reshaping of it, thus merely setting the stage for more problems later on. By contrast, taking control of the process holds out the possibility of remaking globalization, so that it at last lives up to its potential and its promise: higher living standards for everyone in the world.

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