



CENTER FOR GLOBAL DEVELOPMENT

Presents

Making Globalization Work

by

Joseph E. Stiglitz

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Lawrence MacDonald: Good morning. Thank you very much for joining us today. I'm Lawrence McDonald, Director of Communication and Policy at the Center for Global Development and our speaker today is Nobel Laureate Joseph Stiglitz. He's here to talk to us about his important new book, *Making Globalization Work* and I think that Joe epitomizes the ideal that we strive for at the Center for Global Development in the way that he passionately bridges the worlds of scholarship and policy. You probably all know the mythical elements of Joe's biography but I'll refresh your memory very briefly.

In 1979, he was named by the American Economics Association as the economist under 40 who'd made the largest contribution to the field. From '93 to '97 he was a member of the Council of Economic Advisors, including serving as its chair from '95 to '97 and I would say that many of us probably look back at that time as a golden age of rapid growth and declining deficits. We should be so lucky to have that happen again. From '97 to 2000, Joe was the Senior Vice President and Chief economist at the World Bank. I had the privilege of working for Joe at that time attempting to assist him with his communications although it was quite clear that Joe didn't really need any help in that department. He did it just fine on his own.

In 2000 Joe was awarded the Nobel Prize in economics for his work on ah, the asymmetries of information in markets. We are proud indeed at CGD to include Joe among the honorary members of our Board of Directors. The ad copy for *Making Globalization Work* refers to Joe's previous bestseller, *Globalization and Its Discontents* and says that that book described the many problems of globalization. *Making Globalization Work* offered solutions and there indeed are a lot of solutions in this book and the one that caught my eye last night that I'm hoping we will address today is Joe's suggestion that we should, that the World Trade Organization could consider trade sanctions against a rogue state ah to bring it in line with um ah global views about containing what Joe very forthrightly calls pollution which ah is the global warming gases. Joe's going to talk for about 30 minutes after which he will be joined on stage by our two very distinguished and lively discussants. Please welcome Joe Stiglitz.

Joseph Stiglitz: Well, thank you very much for that introduction--it did remind me that, that actually we, in the period of '95-'97 we did make ah the American economy work and maybe that this book is, is written in the hope that we could have similar success at the global level but actually the title of the book provides a summary in many ways of what the content of the book. It says, *Making Globalization Work*. That suggests something isn't working well now and much of the book is devoted to describing the things that aren't working in a much broader way than I did in my earlier work. I talk about the problems not just in ah the ah international institutions but also focus on trade, intellectual property, the problems of natural resources, the environment, ah problems with multi-national corporations and the global financial system ah including the problems of debt and the global reserve system.

But much of the book is trying - devoted to try and figure out precisely why these things aren't working as well as they should, as they could and then in the basis of that trying to come up with some prescriptions. Some of these are, are, ah, ah things that could be accomplished in a short run, some will take a long time, some are big, some are small. One of the interesting aspects of ah the numerous reviews that have been written about my book is how different, different people's perspectives on some of these recommendations are. Some people say ah you're on, these are all much too easy, much too simplistic, much - you know, yes they're important steps, but they won't ah go far enough and these are things that are really very close to what we're already doing and other people describe these as utopian and

revolutionary. I like to think of this as trying to get the middle way between these two extremes, that in fact I think these are eminently practical, but at the same time some of them are trying to, to set an agenda for thinking about where we should be going so these are things that won't happen overnight but help, help our thinking about where, where the global system will be evolving in the next couple decades.

Let me begin by, by talking about some of the ways in which globalization has not been working as well - working at least working as well as its advocates had earlier hoped. In the, in the beginning of a recent discussions on globalization, maybe 15 years ago, there was an enthusiasm that everybody would gain, ah that as it was sometimes put that a rising tide lifts all boats. And that was why when the protests broke out in December of 1999 a lot of economists were a little puzzled ah in response, and some economists was it really showed the important role that the world needed for psychiatrists but not for economists. Why was it that so many people were better off and didn't know it or weren't happier. But in fact, as I'll come to in a minute, ah there were lots of people who were unhappy, were deservedly unhappy. They were, actually had been made worse off, for instance by the last round of trade negotiations. In fact, while standard economic theory works of my teacher Bob Soto had predicted that there would be a process of convergence, the disparity between the richest and the poorest would narrow. In fact, what has happened is a divergence.

The gap between the richest countries and the poorest countries have actually increased even through - ah closer here at home. I was in the Council of Economic Advisors when we discussed NAFTA and the hope, our hope at the time was that NAFTA would, well might not have much of an effect on the American economy, would at least help Mexico and narrow the disparity, the six fold disparity of incomes between the United States and Mexico, and a decade after NAFTA it was clear that the disparity had actually increased and some would argue, and I provide some of the arguments in the book that NAFTA was part of the explanation. NAFTA, as you know, is the North American Free Trade Agreement, but it's not a free trade agreement. A free trade agreement would be easy to write, and take a couple pages. We will have no tariffs. They will have no tariffs. We will have no non-tariff barriers. They will have no non-tariff barriers. We will have no subsidies. They will have no subsidies. About six lines and you'd have a free trade agreement and you might say a couple other paragraphs. This will take five years. This will take ten years and that's over.

As many of you know, these free trade, these so-called free trade agreements go on for thousands and thousands and thousands of pages. Every special interest rate - group piles in and has their special protection provisions. So they're not free trade. They're managed trade. They're, they're ah, ah, ah they have, they're about trade, but actually some of the key provisions - they are not even about trade, as I'll come to in a minute. So ah the NAFTA actually played some role I think in, in, in contributing ah to that divergence between the United States and Mexico. We have to recognize at the same time that there have been some real successes in globalization. 2.4 billion people in Mexico, China and India have had growth that has been historically unprecedented. China's had growth of 9.7 percent over the last 30 years. Ah put that in the context of even the industrial revolution where growth was often, you know, even good growth 3, 3½, 4 percent.

So this is really an amazing, and it's not just one year as I say for three decades and it was managed in ways that brought literally hundreds of millions of people out of poverty in spite of the fact that there was growing inequality within China. So while, while ah there have been some impressive successes and those successes of China and India are due to

globalization, access to global markets, access to global knowledge, it has not played out in the way that the advocates had hoped, that there are growing inequalities, disparities between the richest and poorest countries and growing disparities within most of the countries in the world, both the developed and the less developed and in which globalization plays an important role.

As another manifestation, another concern, economists think that we have learned something about how to grow, how to manage an economy. I mean, how else do we justify our salaries for the last 25 years? Not only have we learned something, but some countries have followed the advice and one would argue that there are better institutions, better marketing institutions around the world. And you would have thought that as a result of that there would be faster economic growth and more stable economic growth, but in fact that has not been the case. The region of the world that has listed most, been the most assiduous student of the Washington consensus policies, ah Latin America, the growth in the '90s was about half of what it was in the '50s, '60s and '70s and while ah, as I say, we should have expected there to be more stability there have been about 100 crises in the last ah 30 years. It's more unusual for a country not to have a crisis than to have a crisis. The only two countries major emergent markets not to have a crisis were China and India, both countries that did not follow key elements of the Washington consensus.

In the area of debt, ah if there were only one or two countries that had a debt problem you can attribute it to **** governments. We all know instances of a country with good economic management, say a 2 percent surplus, which within a few years' time, two or three years, turns into a 4 or 5 percent deficit of GDP as a result of back economic management. But the problem is that it's not just one or two countries, it's a large number of countries in the developing world that face debt burdens beyond their ability to pay and that suggests that there is a systemic problem. It is good news that at Glen Eagles the countries of the world or the G8 agree to provide debt relief a third time in a little over a decade. But they really didn't give any discussion to why it is that so many countries need debt relief and as a result there is very little being done about the underlying problems. And unless that happens there is a real risk that even as we give debt relief to those who currently have it new debt problems will, will arise in the not too distant future.

So this is just a part of the litany of the, of the many problems - ways in which globalization has not lived up ah to what it was hoped. As I say in the book, I try to look at both the, the specific explanations within each of the areas that I described, but also try to spend a little time talking about the underlying macro picture of why these problems have arisen ah and arisen so pervasively and given the limited amount of time, let me just try to do it in a very staccato way. The first is that and most importantly is that economic globalization has in many ways outpaced political globalization as we become more economically integrated, we become more interdependent, as we become more interdependent, there is more need for cooperative collective action, and we don't have either the democratic institutions or the mindsets to act cooperatively at the global level. You see that very clearly in the context in which decision-making gets made ah the difference between domestic and internationally. Domestically we always talk about tradeoffs between equity and efficiency. Internationally we never send our trade negotiators off to Geneva and say come back with a fair trade agreement. If you did that he'd be fired. What we say is come back with the best deal for the United States or more accurately come back with the best deal, we don't quite say it this way, the best deal for our major campaign contributors. And the result of this is you see a clear dichotomy between some of the things that we do domestically and internationally.

Domestically at the top of the Clinton agenda was the issue of access, was reform of the healthcare system, including access to medicine. And the administration beat up all the time on the drug companies because of their high prices. Internationally we were in bed with the drug companies. We were at the Uruguay Round has a provision called TRIPs, Trade Related Intellectual Property. It has nothing to do with trade. Trade related was only there to stuff it into a trade agreement. There was already an international organization, the World Intellectual Property Organization to deal with intellectual property so they, they had to have some other rationale for putting it in and they called it trade related.

The consequence, the design of this was to make generic medicines less accessible in the poorer countries and it had that effect. So it's just the opposite of the policies that we were pursuing domestically. It was actually - we had a discussion at the Council of Economic Advisors and the Office of Science and Technology Policy and we thought it was bad for American science. We thought it was bad for global science. We thought it was bad for the developing countries for reasons that I'll explain in a minute, but our views didn't prevail. What prevailed were the concerns, the interest of the drug companies and the entertainment industry that wanted as strong intellectual property provisions as possible. Making matters worse was the end of the cold war which in other respects was all, it was obviously very positive.

During the cold war we had a simple principle, the enemy of our enemy was our friend so we could support Pinochet, we could give loans to Mobutu knowing that money was going to a Swiss bank account and wasn't going to help development and in the cold war we had an opportunity to try to restructure global, the global economic order in terms of our principles and values or to restructure it in terms of our special interests and our own national interest and unfortunately unfettered by the competition to win the hearts and minds of the people in the third world we chose the latter course. And the result of that is that we had this enormous, these enormous asymmetries in the way globalization proceeded. The last round, the Uruguay Round actually made the poorest countries worse off. We focused on liberalization of capital markets and investor protection even though if you were looking at it from a perspective of either global efficiency or global equity, small increases in liberalization of labor markets, temporary migration of workers for instance, would have an order of magnitude more important effect than capital market liberalization, which arguably would even have a negative effect.

So the agenda was driven by the new opportunities that the end of the cold war offered. And finally the part of the problem was we had a Pollyannaish view that globalization would benefit everybody. Even though economic theory had predicted that there would be losers, the standard economic theory that everybody learns in graduate school, the factor price equalization theorem, predicted that there would be losers. You can think about it in a very simple way. What would integration in the kind of model that the advocates of integration have most in mind, a model in which markets worked perfectly, it would mean wages of unskilled workers everywhere in the world would be the same. So unskilled workers in America would get the same wages as unskilled workers in, in India or China, exerting enormous downward pressures.

Of course, globalization is not the only course. Technology, weakening of unions, changes in social mores, may all have - be more important, but it is the one thing that, that citizens can do something about. The view that, there is a widespread view that globalization is inevitable that's sort of like cod liver oil you have to take it, its medicine and, and you just

gotta get used to it. But the fact of the matter is that the extent of globalization is measured for instance by trade, the GDP or capital flows to GDP, was stronger before World War I than it was at the end of the war period, past the holy tariffs and other kinds of trade impediments and there can be a backlash against globalization again if there aren't more winners. At the bottom, in the United States for instance, real wages have not only stagnated and not only stagnated for a few years, but actually fallen about 30 percent over the last three decades. Even the middle median incomes in the United States are down over the last five years.

So while as I say - while globalization is only one of the forces, it is one of the forces that is at play. Young French workers went on protest last spring saying that concerned about wages falling wages and weakening job protections. And they were told two things. First, that they would - needed to do this to, to respond to globalization and secondly, that they would be better off and they scratched their heads and said, "How can lower wages and weaker job protections make them better off?" Sometimes the response came back, "Well, be patient and ah in the long run you'll be better off". And the economists' response of course to that is the famous quip of kings, "In the long run we're all dead". And if we're talking about a 30, 40 year period in which real wages have been falling that's a working lifetime that we're talking about. And the problem is that too often globalization is used as an excuse for weakening public programs even as the underlying economics are making those at the bottom worse off.

And you have to say we have to cut these public programs in order to respond to globalization. It's not true. Scandinavia has shown that you can maintain strong safety nets, heavy investments in education, technology and that in fact, these can be in important part of the response to globalization. But unfortunately the way we responded has enhanced the number of losers. Well, these are some of the reasons that globalization has not been working in the way that at least one would have hoped and much of the book then is devoted to going through area by area the various way, the various areas. Because in my view, although it's important to have the big picture globalization has now intruded into every aspect of our society and we have to break it up and, you know, into each of the pieces and think about how we can work on each of the pieces.

One of the areas, one of the chapters for instance deals with intellectual property. You say, what does that have to do with globalization? Well ah as I mentioned before in the Uruguay Round there was an attempt to have a global intellectual property regime. One could argue that we shouldn't have done that, but that's what we've done. We tried to create a model using the American basically version of intellectual property and impose it on the whole world. I actually think the American model is bad for the United States, but it's clearly a model that is bad for many of the developing countries, which is why about a year ago the developing countries got together at the World Intellectual Property Organization and demanded a development oriented intellectual property regime. Obviously, as an academic - as a producer of intellectual property, I have some, some affection towards intellectual property, you know, ah but I also have a lot of ambivalence and that's sort of illustrated by a couple of stories.

One of them was in the '80s. I got a letter from a Chinese publisher who wanted me to write a preface for a pirated edition of one of my books. And I was actually very enthusiastic because I figured you know a billion people, if 1/100th of 1 percent read my book, that's a better audience than I get in America and when you write your books you don't do it for the

money basically, you do it for the influence the ideas, and so I was actually very enthusiastic, but I thought maybe I should consult with my publisher before I did this and predictably he went ballistic. About that same time I was in a conference in Taiwan and I had time to go to a bookstore. I had - and as I was walking through the bookstore I had a little debate in my own mind. Ah I knew that Taiwan was also heavily involved in pirating and I was trying to figure out what my own feelings would be about when I went into the bookstore. Would I be more unhappy if they had pirated my book, stealing my property or more unhappy if they had not stolen my book and ignored me?

And I came to the view by the time I reached the bookstore that I would be happier if they had actually stolen my intellectual property ah and they did, so I felt relieved. Well intellectual property is different from ordinary property. A lot of you know about big debates about how important property rights are. Some people have elevated it to a core of development agenda. But intellectual property is different. It creates an inefficiency. It creates a distortion. Knowledge is a public good. Encapsulated best in that, ah, ah epigram on the Jefferson Memorial where Jefferson describes knowledge like a candle, that as one candle lights another it doesn't diminish from the light of the first candle. What he was saying was there's a zero marginal cost, but much more poetic than the way economists would put it. So restricting the use is an inefficiency.

Monopolizing it is even worse, because we all know monopolies are one of the worst things that any economy can have. And so here even embedded in the U.S. Constitution we have the notion of creating intellectual property rights that create this enormous inefficiency. Why do we do it? Well obviously the hope is that it will stimulate innovation. But unless we design intellectual property rights right it can actually stifle innovation. And the design of intellectual property is extraordinarily complex and it involves the duration of the patent, what can't be patented. The most important ideas cannot be patented. For instance, I think one of the important ideas is asymmetric information. I could not get a patent on that. Um and ah other important, you know, Einstein had some important ideas like $E=MC^2$. He couldn't get a patent on that.

Most of the important ideas have not, are not patentable and they should not be patented because the cost would be too great. Ah but there are questions. Should you be able to patent the human body? And the U.S. decided yes you could, under certain conditions, or the genes more accurately. Um so there's a question of what could be patented, standards of novelty a whole set of issues if you don't get it right you get all the disadvantages but none of the advantages. In the United States in the 19th Century we learned about some of the ways in which intellectual property could actually stifle innovation. Two most important innovations were automobiles and airplanes and both of them were almost stifled by intellectual property. In the case of automobiles, George Baldwin Seldon got a patent on a four-wheel vehicle, self-propelled vehicle, never mind that in Europe Daimler and other people were already having this idea.

The patent offices in U.S. often don't know what's going on elsewhere. They recently gave a patent for Basmati rice. They didn't know that the Indians have been eating it for a couple thousand years. But evidently the Indians hadn't published it in an American journal and therefore there was no proof that it was well known. Ah now of course there's a problem with publishing, as some of you may know, if everybody knows it you can't get published. So you can't publish it, but if you don't have it published you can get a patent. So ah or in America you can get a patent um and an even more striking case was, was ah U.S. gave a

patent for um the healing properties of Turmeric. Again, something that somebody in India everybody in India knows about it and it was an Indian doctor who did it. He probably learned it at his grandmother's foot, came to the United States, realized that here was a new economic opportunity, got a patent for the healing property of Turmeric. Well ah as I say there's a long tradition of giving patents when you shouldn't and ah in this particular case, his interest was not in innovation, it was in creating a cartel. He used the patent to create a cartel. All the other car producers liked it, they understood from Adam Smith that the best way of making profits is a monopoly and ah only one car producer had a different vision. That was Henry Ford.

His vision was a low priced car, a people's car made available ah and he had the resources, the determination to fight the patent and he succeeded. But had he failed, the modern automobile would have been delayed for possibly decades. Now given the problems of global warming ah it probably would have been a good thing, but ah how were they to know? They should have read the literature, because even then there was a worry about global warming but, but ah, ah, ah that was clearly not uttermost in their mind. Another example is the airplane. The Wright brothers 1903 Kitty Hawk got, got a patent, but so did Curtis, a patent thicket stifled the development of the airplane until the U.S. government said it was too important to fight World War I to have the airplane seized the patent, formed a patent pool and decided that the lawyers were not going to stop the development of the airplane.

More recently Blackberry ah got, had to pay ah \$600 million in ransom to be able to maintain themselves, even though that patent had already been declared invalid in the UK and in another country and it will almost surely be declared invalid in the United States, but under the U.S. law, as long as that patent exists you have to pay a ransom if you want to continue and they had to pay an enormous amount. These are just the tip of the iceberg of the ways in which it can stifle innovation. In the case of developing countries, the problem is they have paid a huge price.

Access to generic medicines has been reduced but what has been the benefit? The drug companies spend more money on advertising and marketing than they do on research, more money on research and lifestyle drugs like, like hair than on life saving drugs and almost no money on the life saving drugs of tropical countries. The particular proposal that we put forward here is there's a prize fund where you get big prizes for big innovations like curing malaria or a vaccine of malaria; small prizes for me-to drugs and that would, and then you use the market mechanism to distribute the drugs at the lowest cost possible. So you use the market to have low prices and large quantities, rather than the monopoly system, which is low quantities, high prices and that would obviously give incentives much more directed at real social benefits.

I'm told my time is running out. Let me just talk about one more example and that's global warming. Important because ah global warming is not only emblematic of the failures of our current globalization, but also because if we solve, even if we solve the problems of economic globalization, if we're all frying it won't do us any good. It also illustrates the, the, the inequities or the asymmetries different people are, are affected differently. Some of the poorest will be hurt the most. Bangladesh, one of the poorer low-income countries, where a third of the country will be under water and the people will be crowded even more together. Kyoto was a big step in the right direction symbolically, but actually a very small step. About three-fourths of the sources of emissions were left out. The United States then joined the development countries, which in ah 30 years will be producing about half of the carbon

emissions were left out and forest, deforestation, which contributes about the same amount as the United States 20, 25 percent of emissions was left out. And clearly with leaving out 75 percent we aren't going to be able to do anything significant about it.

What I try to do is propose solutions in each of these areas, including the question of who do we enforce a global agreement. We know how to enforce a global agreement. We did it in Montreal in the context of the ozone destroying gases that lead to, lead to cancer. We used trade sanctions. The U.S. argued for the right to use trade sanctions when there's a global environmental issue. Imposed - it restricted the importation of shrimp from Thailand that were caught in nets that destroyed an endangered species of turtle. And the U.S. position was sustained. I asked one of the appellate judges whether he understood what the implications were for global warming, because clearly if you can impose a trade sanction to save a turtle, you clearly can impose a trade sanction to save the planet. And the judge said, yes we were aware of where this was going.

So the fact of the matter is that we have the instruments with which to do it. It is an unfair trade advantage, it's not a question about whether the United States can afford it. There are other countries using the same standard of living with half the emissions that we have. So we can afford it, but what is true is that we have an unfair trade advantage. The WTO is supposed to create a level playing field. The current system gives the United States an unfair trade advantage. Talked about another initiative the Rain Forest Coalition. The developing countries, through their rain forests, are providing a global public good. Rain forests take, take carbon out of the atmosphere and they sequester it in the trees. So it's like a negative emissions. So they are providing these enormous, environmental services of enormous value.

We can actually value them now, because in Europe there's a European trading system where we can value the value of a ton of carbon, and if we value the services that they're being provided, that they are providing without any compensation today, it's more, much more than the foreign aid that they receive. So, so what we've, so what we propose, there's actually this initiative called the Rain Forest Initiative where to design to get them to be compensated for these environmental services, we managed to get this on the agenda of the next round following Kyoto. So I'm hopeful that this is an example of a small change that will actually manage to come about.

Let me just conclude by a question of you know who will these changes come about and am I really too - myself too Pollyannaish about the ability to change? And I think the answer to that is very simple. Ah globalization, the word globalization is extremely fluid there are many changes going on. The U.S. continent subsidies have been declared illegal. The dollar reserve system is fraying. There are concerns about almost every one of the aspects of the globalization that I've talked about. Simple societies because activated. The AIDS activists about intellectual property and what it is doing to access the medicine. There is in my mind no doubt that there will be changes.

The real question is simply whether these changes will come about as a result of a crisis where we have some patchwork and we lurch from crisis to crisis. One patchwork working for a little while until the next crisis or whether we, we ah try to think through the problems in a more systematic way, systemic way and make the reforms, not in the time of crisis, but in a time when things are working or at least working relatively well. I think it's wonderful being here at a think tank which is devoted to the idea that we can approach these things in a rational way, that we don't have to wait until the crisis and this book is really written in the

hope that these, that the ideas can play an important role in helping to reshape our thinking about globalization, so that we can make it work not only for the rich in the rich countries, but for the rich and the poor in both the developing and the developed world. Thank you.

Lawrence MacDonald: Alright Joe thank you so much. I've been at a number of Joe's talks and I have to say I think this is the first one that finished exactly on schedule and that was despite the fact, Joe, that I think you tried to buy extra time by addressing the topic that I was most interested in ah global warming, so thank you very much. I'd like to invite our discussants to join Joe on the stage. As they're doing that, I will introduce them. Starting with Nancy at the far side of the stage to my extreme left.

As I think you all know, Nancy Birdsall is the founding president of the Center for Global Development. She's therefore my boss and I must say this is the second time around that she's been my boss because I had the good fortune to be hired by her when she was Director of the Policy Research Department at the World Bank. She left very soon after I went to work for her and became the Executive Vice President of the Inter American Development Bank, where she oversaw a \$30 billion public and private loan portfolio.

Our first discussant will be Fred Bergsten. Fred you're the only person on stage I've never worked for. Although sometimes I wonder about that. Fred is the Director of the Institute for International Economics and I must say we're delighted to claim IIE as our big sister institution. IIE provided ah a safe home for incubating the Center for Global Development in its early years and continues to provide us with the use of this beautiful conference space for our events. Fred was previously the Assistant Secretary for International Affairs of the U.S. Treasury and also Undersecretary for Monetary Affairs representing the United States on the G5 Deputies and on preparing for G7 Summits. He also coordinated U.S. foreign economic policy ah in the White House as the Assistant for International Economic Theorist to Dr. Henry Kissinger.

I learned recently that Fred is the most widely quoted think tank economist from '97 to 2005 and I'm also pleased to say that he's, in addition to being the co-founder of CGD, a member of our Board. Fred, I invite you to ah go first. I'm not even going to give you a question because I know that you've thought carefully about what you want to say, then Nancy and we'll give Joe a chance to respond before we open it to questions and comments from the floor. Fred.

Fred Bergsten: Okay. Let me kick off the discussion by putting two questions to Joe. One will come under the heading of "Throwing out the Baby with the Bath Water" and the other will come under the heading "Is Joe Stiglitz Going Soft on Globalization?" On throwing out the baby with the bath water, Joe in his book and his talks stresses the shortcomings and problems with globalization and that's fair enough and that's right to do. All of us who are serious students of the topic, analysts of globalization, try to discern where the process should improve, how it could be strengthened. Certainly almost all of our work here at the Institute for International Economics goes in that direction.

But what I worry about in Joe's work, including the new book, is that he does not perhaps put the problems in the context of the aggregate impact which I think on virtually all studies and analyses are unambiguously positive by a huge amount. Now Joe in his remarks acknowledged a massive reduction of poverty in India and China. We published a study about three years ago by Serge Balla which put those improvements together with Indonesia,

Pakistan and a number of other countries and concluded that there had unambiguously been a massive reduction in world poverty during the era of globalization. Now if that's correct that's an important macro framework within which to worry, correctly and justifiably, about the ill implications of some aspects of globalization on some groups in some developing countries. But let me also mention the United States. Joe talks in his book a lot, though he did not here today much, about the impact of globalization on the United States and he focuses on the shortcomings on income distribution, job insecurity, things that he mentioned which again, totally correct, hugely justifiable problems, we need to worry about them. And he's got one or two asides in there that say well, globalization may on balance be beneficial to the United States.

Well, he ignored a massive study that we happened to publish, so I know about it well, about two years ago. We had a team led by Gary Hufbauer, Dave Richardson, Robert Lawrence, some of the best people in the business. They used five different methodologies and they concluded that the United States is today \$1 trillion per year richer, \$10,000.00 per household richer as a result of the globalization of the last 60 years. They went on to say suppose we could go all the way to free trade. The U.S. would gain another half trillion dollars per year from globalization, another \$5,000.00 per household. Now they calculated the downsides and the costs and those amounted to something like \$50 billion a year, a lot of money. A couple of hundred thousand workers dislocated, long-time job earning losses ah from that effect but the benefit cost ration was 20 to 1. The overwhelming aggregate impact was positive.

So I ask Joe aren't you kind of throwing out the baby with the bath water or risking doing so when you emphasize the negative, quite rightly, but without putting them in the context of the positive. This I think is enormously important because as Joe says quite rightly, there is a big backlash against globalization around the world. We all know it and we know it's true here in the United States. Joe is an influential voice. If what people hear from that voice is that it's all a bad business and don't realize it's within the context of 20 to 1 advantage they might actually throw out the baby with the bath water. Paul Krugman's work on strategic trade policy was used as an intellectual patina for protectionism 20 years ago even though he never intended it to be that way. I'm not accusing Joe of wanting to feed the bad guys and the anti-globalizationists but that I think is the effect if he doesn't put the specifics in the aggregate context, and I ask him doesn't he risk throwing out the baby with the bath water?

Second and much more briefly. Joe says in the book, though he wisely in my view did not mention it today, that the ills of the global monetary system are the biggest single problem facing globalization. The reason I say he was wise not to mention it – he and I already discussed it a little earlier today – I think his own proposals are so fundamentally flawed that they don't have any chance of going anywhere. Ah he essentially reprises the debate of the 1960s which led to the creation of the special drawing rights which he explicitly wants to emulate but in better form but that's had zero effect for 40 years. It's been totally dismissed and gone into disuse and he wants to go over all that again so I think it's fundamentally flawed but here's the point for now.

At the end of that analysis of the monetary system what Joe calls for is essentially the creation of world government and a global central bank to create international fiat money – his term – and decide how to allocate. Now that's by anybody's definition the function, at least in that rather big area of our activities, global government and a global central bank. So what is Joe Stiglitz's response to his perceived number one problem of globalization? More

globalization. In fact he doesn't tell us who might run that global government but one suspects it might even be those IMF bureaucrats and technocrats that he vilified in his last book three or four years ago. Who else would it be? So I ask Joe, aren't you maybe going a little soft on globalization? Aren't you maybe concluding that the answer to the ills that you lay out is really more, not less, globalization? I'm certainly with you in terms of some of the difficulties you outlined, the need to counter the backlash, the need to deal with the ills, but aren't you really saying that the problem is the implementation, not the phenomenon, and that the answer really is more, not less, of the topic that you spent a lot of time attacking?

Lawrence MacDonald: Thank you very much. Nancy.

Nancy Birdsall: Thank you very much, Lawrence. Ah I thought I would tell Joe and all of you what I like about the book and what worries me about the book. First what I like about the book. This is a book that actually uses words like "fair" and "social justice". I looked at ah a book to which Joe's book has been compared, the book of Jagdish Bhagwati in defense of globalization, and did a comparison of the number of times in the index certain pages have certain words and issues discussed so I thought I'd give you a quick rundown. Ah fairness, Stiglitz two, Bhagwati zero. Social justice, Stiglitz two, Bhagwati one. Equity, Stiglitz seven, Bhagwati zero. Inequality, Stiglitz ten, Bhagwati zero. Ah income inequality, Stiglitz 13 and three for Bhagwati using the word equality.

Now why, why is this interesting and notable? I think what's most important about the book, what I like about it most, is that it raises these, the issue of the distributional implications of globalization. That issue has been a taboo in, for – well, the issue of equity, the words "fair", economists still live with a kind of taboo that raising this issue, these issues will make them appear soft. They don't understand tradeoffs. Actually some of the points that Fred raised that raising this issue in the context of globalization will make them appear anti-globalization. The irony of course is that it ain't so. If you actually try to understand the issues that Bhagwati raises and the issues that Joe raises there's a striking similarity on many counts. They are both absolutely negative on trade-related intellectual property rights being part of the WTO arrangement. They are both negative on premature liberalization of global capital markets. They are both free traders in a sense.

The difference is that Joe has a chapter, 63 pages, on called Fair Trade and I don't think that our friend Jagdish would have the nerve to call any chapter in his book Fair Trade, and yet they're raising many of the same issues. I think the tone matters so that's what I like about the book. Now let me say something that worries me about the book. Joe's first book – not his first book but his earlier book, *Globalization and Its Discontent*, was seen and is perceived primarily, particularly by those who haven't read it, as a kind of diatribe against ah the International Monetary Fund. This book risks, at the margin, not – it, it's not a diatribe so the first risk is that since there's no bad guy that jumps out there won't be as many books sold. That's one thing that worries me because I like the book. It raises issues that the Center for Global Development is concerned about, the way globalization, particularly as managed and influenced by the rich world, affects the poor world and he's got these issues laid out very nicely.

I hope that many of you will take the time to look through his – the way he approaches the problems and some of his solutions so I, that's good, but what worries me is the, the implications – the, the bad boy in this book, if there is one, and it's more subtle, is the United States and not so much the United States government, though that's implicated, but special

interests in the United States and this came out very much in Joe's discussion of intellectual property rights this morning. As a development economist I, I, I feel that the problem of special interests within developing countries – it, it's not neglected. It comes up in the context of the natural resource, occurs in the context of the behavior of multinational corporations ah but there's a kind of assumption especially in the discussion of making globalization more democratically managed, not world government but, you know, more ah arrangements like the World Bank, the WTO, the United Nations, that would help manage globalization, make it more fair as well as more efficient. There's a kind of sense that there isn't a problem within developing countries of special interests including sometimes abuse of power um that if we could democratize the globalization process in the context of global governance that that would make a big difference for the development process within countries. It's related in a different way to ah – ah it's one of Fred's worries I'd say. So let me leave that as a kind of question for Joe. How does he see the next book dealing with that particular issue? Thank you, Lawrence.

Lawrence MacDonald: Thank you very much. Both of our discussants also sticking exactly to time. Joe, I'm gonna give you six minutes to respond so you've got three minutes each because I know we've got a lot of people here who want to join in the discussion. Um I heard two questions from Fred which seem to me to be um not – it's impossible for them to both be true. One is that you're throwing out the baby of globalization with the bath water and the other is that you're soft on globalization. Maybe it's possible to reconcile both of those charges in Fred's mind but I'm having a little trouble with that and then I heard ah Nancy say that she liked very much the way you framed the issue um in terms of fairness and some interesting scores ah in which you un trumped Bhagwati on a number of terms related to fairness and then Nancy I want you to say in like four words your concern because I had trouble capturing what that was.

Joseph Stiglitz: I think I understand.

Lawrence MacDonald: You got it. Okay, good, and then she had a concern.

Nancy Birdsall: Well I'll repeat it. The bad boy in the book is special interests in the U.S. What about the effects of special interests ah, rent seeking and so on, within developing countries?

Lawrence MacDonald: Got it. Okay, great. Joe.

Joseph Stiglitz: Well, first let me say I thank both of them for, for their comments and I think particularly when I say that Nancy is being very fair to me in saying this is ah I should, what I should deal in a next book. Whenever you write a book you can't deal with everything and pointing out that there are lots of things I haven't dealt with including the whole issue of what developing countries themselves should but –

Nancy Birdsall: Yeah, but, let me –

Joseph Stiglitz: Let me just say this from the beginning –

Nancy Birdsall: No, no. No, no. I didn't make the – I didn't get to the full point. Isn't that one of the reasons why globalization has a benefit that is neglected?

Because it helps in many cases um constrain special interests within developing countries.

Joseph Stiglitz: Yeah, and one of the concerns that I raise is in fact that in many instances the way globalization has been managed has actually contributed to undermining democracy and ah ah corruption. They've played a very big role and one of the particular issues that I ah I, I stress is the potential of the international community to take a more active role in trying to shape globalization in ways that make ah there to be less scope for corruption. For instance, I take a very simple point, every bribe has both a briber and a bribee and too often the briber is somebody from the multinational corporations. Now of course United States took the lead.

In 1977 we passed the Foreign and Corrupt Practices Act making it illegal to bribe but we found ways of getting around it and there's some cases I mention, Mobil Exxon, you hire somebody to do bribing for you. It's actually illegal to do that but they've been very creative in trying to get around it. When I was at the Council of Economic Advisors ah representing the United States to OECD one of the things that I had to fight very hard to get was an agreement among OECD that there should not be tax deductibility for bribes. Ah at that point the governments were paying effectively half their bribes and ah that's another example. Bank secrecy provides a med, helps mediate corruption.

The OECD made an agreement to reduce their scope for bank secrecy which plays a big role in corruption. This administration in August of 2001, a month before September 11, vetoed that initiative. It liked to have competition for corruption ah and that was the, the defense that it gave. Then it realized of course that secret bank accounts are not only used for corruption, drug laundering, ah tax evasion but also for terrorists and now they've shown you could do something about it but only so far have they done anything about for terrorists and not anything about corruptions.

Nancy Birdsall: So was – as I was saying, who's the bad boy?

Joseph Stiglitz: Ah I think there is responsibility on all sides. The major responsibility for development of any country is its own government. The issue here is what can the international community do to try to create the best environment in which a corruption, ah less corrupt, ah ah policies that advance general interests are pursued. The – let me try to answer since you, you've got my time down very the other set of ah questions. First let me just say that in a way I **** a little bit like Keynes must have felt about ah the capitalist economy. He was widely attacked as being a socialist against the market economy. In fact had it not been for Keynes there would have been a lot of real criticism.

If nothing had been done about the depression there would have been a very strong backlash against the market economy that was clearly failing. 30 percent, 25 percent unemployment. It might – in some ways what I think I am in a way very much in favor of the potential that globalization has, of raising income. Adam Smith's idea of the larger market advantages of specialization but if globalization is not managed well there will be so many losers that there will be a backlash so in some sense what I would argue is that what I'm trying to do is to ah to try to encourage the pro-globalization forces from ah stopping, putting their head in the sand, realize that there are a lot of losers. Maybe in some countries the majority are losers and unless we reform the way globalization is managed there likely will be a backlash and this is not to say it's anti-globalization to recognize the reality that there are losers, there's insecurity. It's only saying we ought to do something about it.

Nancy Birdsall:

But isn't the other reality is that the aggregate is a very big plus?

Joseph Stiglitz:

The aggregate, but it still can be the case that Bill Gates is doing very well intellectual property making billions of dollars and the median is actually worse off so the issue is you can have most people worse off even though the country GDP is going is going up and that is actually a very important point, how you measure success. I don't think GDP is a good measure. It's been a, it's a very misleading measure. First of all we know we all have to take out environmental degradation, depletion of natural resources. Ah we ought to be using green GDP but we also ought to ask questions of sustainability if we are – have a GDP that is growing because we're borrowing it's not sustainable ah so that the bottom line is GDP has to be – the way we measure success has to be very careful. Ah median income in the United States has been going down.

The second point is you also have to look at very carefully at numbers, particularly when we do it internationally. Bala's numbers have been very severely criticized. Real problem – this is really a technical issue but it's important one – how do you measure, how do you measure ah what is going on ah in inequality around the world? One of the difficult problems is the basic way it's done is to do household surveys. When they do the household surveys ah the incomes that are reported are a significantly lower than measured GDP as we measure it. There's some sort of something that's not measured. There's a consensus about what's the problem. People aren't reporting. Then the question is who is not reporting?

If you say well, there's equal nonreporting among the rich and the poor you get one result but if you say there are stronger incentives for the rich who might have the government come and take their money than the poor not to underreport then what you're saying is that you're actually getting a grossly distorted ah estimate if you inflate everybody proportionately and the World Bank has done some studies where it's actually tried to try to see the nature of the bias in reporting and when they do that Bala's numbers blow up and the fact is that if you look at it more carefully it does turn out that inequality is increasing in most countries of the world, that yes there have been the big successes that I mentioned, China, but that's – even there there's inequality growing but they've done something about poverty but that's because they've had specific policies directed at that ah to counter veil what would happen at the bottom ah and that unless you design policies recognizing these problems they can actually get worse and that's really the thrust of much of my book is to say look at.

These are not accidental consequences collateral damage that in fact it's almost inherent in the nature of globalization that it creates these losers but the way we've managed globalization has made it even worse because it's not been a fair globalization, it's been a tilted globalization where the poor have gotten a raw deal, to put it in ah in crude ways and that therefore it really behooves us to rethink the way we manage globalization. Now do I think I'm soft on globalization? That's actually um – I actually in, in many ways think that there is a very important role for global institutions but global economic ah global, global institutions. As I say, the fact is ah economic globalization has meant that we've become more interdependent and that means we have to, like it or not, we are going to be acting cooperatively so my answer is no we don't abolish – I think World Bank plays a very important role.

I even think we need an institution for managing the global financial system so my, my complaint is, maybe an optimist, that we can reform these institutions and actually I call for

creating new institutions for competition policy, ah for bankruptcy um ah so I'm actually an optimist that we can create these institutions and make them work well ah and so in that sense you can say I'm soft on globalization ah I think I'm, I'm – what I try to do is be fairly concrete on how we can go about doing that. For instance, to have rule-based systems where you recognize that governance – not only rule-based system and democratization. Why has the market economy worked so well? In the 19th century there were a lot of people who were losing. Ah in fact it was so bad that measure – health standards were actually going down, heights were going down, a lot of evidence that was not working very well. I think the big – the reason that the market economy turned out to be such a success is because of democracy. We learned how to temper the market economy and to shape it in ways that ah most people benefited and in a way what I'm calling for is that process of democratization leading to a tempering is what we need in the area of globalization.

Lawrence MacDonald: I'm going to let our panelists each say one more thing if they'd like and then we'll open to questions or discussions. Nancy, did you have –

Nancy Birdsall: Sure.

Lawrence MacDonald: You wanted to say something?

Nancy Birdsall: Well I just wanted to kind of provide a fact that is interesting in the light of what Joe said about the potential backlash against globalization and he referred to the median income household. The fact is that if you look at the share of income of households in the middle of the income distribution in different countries, that is the three quintile – the 60 percent of households that are not the richest and not the poorest. That group – the share of its income is falling in most countries in the developing world. It's fallen in China. Um, it's fallen in Latin America. It's about 55 percent now in the OECD countries. It's about 37 percent in **** Africa, to give you a sense of the levels.

So if you believe that the democratic process has as its bulwark not necessarily in the middle class but those in the middle of the income distribution, then there is something to the – to the challenge that we face now at the global level, which is that something about technological change in many other forces, along with globalization is creating a new kind of pressure. So in that sense I, I would – I sympathize very much at this point that we have to make globalization work. I would say we have to think politically about its working for middle income groups and not only use words like "the poor" and "the losers." That's true too. That – those are issues, too, that make a big difference but when we go to the concern about political backlash, sometimes the argument is more compelling if we look at what's happening to the median voter or households in the middle of the distribution.

Lawrence MacDonald: Fred, did you want to -

Fred Bergsten: Yeah, just three quick points. There is a big debate, as Joe says, about the model results vis-à-vis the World Bank and others, on whether, ah, income distribution worldwide has gotten better or worse. Uh, can't go into it here. The innovation of the Bala analysis was to forget about countries. The title of his book is taken from the Beatles; *Imagine There's No Country*. Rank world population, regarding of countries. And what he found was a pretty compelling reduction in income and equality. And it was not only China and India. It was Indonesia, Pakistan, some other big countries. Africa has not participated. Latin American and the Middle East have been flat. It's not worldwide but the

– again, aggregate impact now in terms of individuals, clearly improvement. So, ah, that I think's got to be the stuff of the debate.

Second comment, really more of what Nancy said on the point why she liked Joe's work, and I share that bottom line, but there's important caveat. She likes the fact that he talks about fairness and all that and as I said in my opening remarks, everything we do here at the Institute is based on dealing with the downsize, dealing with the losers, coming up with new ideas, some of which have been put in legislation, wage insurance, etc. in order to deal with those problems. But we all know that the term fairness, while used legitimately, honestly, uprightly by people like on this platform, is also used mischievously and indeed, um, in very negative ways by people whose agendas are different. Protectionists in the trade arena call for fair trade and it's a code word for trade protection and we know that it is widely used in that way. So you have to sort out what's legitimate calls for fairness and what are mischievous and indeed Machiavellian calls for fairness and figure out which it is.

Next Speaker: We, we have to take the monopoly away from the mischievous.

Next Speaker: I agree and that's the problem –

Next Speaker: ****.

Next Speaker: And I think we feed the, ah, ah, abuse of that term when we engage in kinds of hypocritical trade policies of the kind that we have.

Next Speaker: Sure, sure. Sure.

Next Speaker: Ah, because it gives, ah, enormous –

Next Speaker: ****.

Next Speaker: Ah, particularly in the developing countries where they say okay, uh, you said it was a free trade agreement but you kept your, your coring subsidies the effect of which was to lower the income of the poorest people in Mexico by half. Ah, you kept, you know, right now in Ecuador, they're, ah – the US is asking for a bilateral trade agreement at least as they see it, part of that free trade agreement is a demand by Ecuador that they have to import under certain conditions, a certain amount of rice in the United States. So we've gone to – from "free trade," to an extreme of managed trade that, that is only – hard to even, ah, for – you know, for us hard to – hard to believe.

Next Speaker: Right, but as you well know, it's exactly that push for managed trade and protection under ****. Which often goes under the label of fair trade. And its advocates are saying we gotta have fair trade, a level playing field, when in fact they're calling for more of that bias and protection you want, only to say to be careful –

Next Speaker: Let, let, let me ask –

Next Speaker: To be careful about who uses the term, how she or he uses it.

Next Speaker: Let me use this to ask Joe a question about the Doha round. Ah, maybe planting a little bit my view in the question. We're in the – we're in the – we have put

ourselves into a trap now which is that if the Doha round does indeed go nowhere, we have entered into a game because of mercantilist approaches and the emphasis on reciprocity in which developing countries will be – will have less likelihood of taking unilateral steps in their own interest which attack their domestic special interests. Why? Because they may sort of in a negotiating world, hang onto these protectionists', ah, impulses. They will – we are – the good guys cannot assert the unilateral, ah, benefits of a change given the need to hold something back for the post Doha round negotiation. This to me is an example of where strategically as well as in terms of fairness, the problems of special interests in the rich world are supporting the special interests in the developing countries.

Next Speaker: You put it beautifully.

Next Speaker: Once you're –

Next Speaker: ****.

Joseph Stiglitz: And let me put – let me – and, and, there is another framework. I mean – make it clear, there's another framework and that is what, what – imperfectly, but, but Europe tried to do when they – everything but arms initiative and I – in the book I – we extend that concept to a generalized market access where you say let's stop having this reciprocity. The world is not, ah, ah, a world where, ah, these are really, ah, ah, on the same, ah, ah, playing field – or shouldn't be on the same playing field. We shouldn't ask the developing countries to reciprocate. Europe – what Europe did is it opened up its market unilaterally to the poorest countries of the world, recognizing that the impact on Europe would be negligible but the impact on these countries could be very significant.

They're really asymmetric – asymmetries in this situation in which this non-reciprocal, ah, opening up, ah, could have an enormous benefit to the developing countries including for the political economy argument that you put forward. Ah, it wasn't well implemented but the idea was a very important one and I want to contrast that. I – you know, I do criticize the United States because I think in some areas, we, we have been worse. United States came up with the proposal called 97 percent – ah, open up our markets to 97 percent. Sounds great. But it's really what I call the EBP proposal. It's everything but what you produce.

Bangladesh can export jet engines, airplanes, ah, everything except a **** textile. So that in that 3 percent is 100 percent of what Cambodia produces and over 60 percent of what Bangladesh produces. It was designed to keep out these goods and it's when the United States thinks that it's being smart and putting something over on the developing countries by saying oh, 97 percent. I don't know who they think they're fooling. But clearly today the developing countries see through that. Ah, Europe sees through that. Everybody sees through it. So, ah, all it does is to look – make the United States look like it's being hypocritical.

Lawrence MacDonald: I think I'm gonna open it to questions now. Fred I know you have a, a view –

Next Speaker: Yeah, let me just **** two.

Next Speaker: Okay.

Fred Bergsten: Two things on ****. You're absolutely right on the 97 percent because it's in term of tariff line items. So 3 percent of tariff line items can be 100 percent of the trade and that's why you're absolutely right it's hypocritical. But I was surprised by two things you said. One was when you focus on non-reciprocal trade liberalization with the developing countries and I understand your argument. But all of our studies show – Bill Cline studies, studies of World Bank, studies everybody's done – you know it well, shows that the biggest gains to the developing countries from trade liberalization come from their own trade liberalization.

Next Speaker: That's, that's the unilateral –

Next Speaker: Well ****.

Next Speaker: They can do it.

Next Speaker: From their own trade liberalization.

Next Speaker: Let them do it.

Next Speaker: That requires – well now wait a minute, wait a minute. From their own trade liberalization. So when you say let's give them non-reciprocal liberalization you let them off the hook from what would be best in their own –

Next Speaker: No, you liberate –

Next Speaker: ****. Second –

Next Speaker: – the good guys –

Next Speaker: Second.

Next Speaker: – to explain to the bad guys –

Next Speaker: Second.

Next Speaker: – why they need to go to –

Next Speaker: That's ****.

Next Speaker: – their own reduction of their own barriers.

Fred Bergsten: That's my second point. As good economists, we all know that unilateral liberalization is best. We also know from studying the real world that you can do unilateral liberalization when you've got tariffs 100 percent, 80 percent, 60 percent, 40 percent – there's lots of water in the tariff. You can get rid of unilaterally because you're really not going the oxen. When you get down to the nub of your protection, the last 20, 15, 10 percent of your protection, it is very seldom that you can do it unilaterally. You then must invoke the political economy of reciprocal liberalization, mobilizing your export interests –

Next Speaker: That's the point. That's what –

Next Speaker: And therefore you need reciprocal –

Next Speaker: That –

Next Speaker: Okay, I'm gonna break in here. We're really going to go to questions –

Next Speaker: That's the ****.

Next Speaker: That's the –

Next Speaker: That's the key point.

Lawrence MacDonald: I'm gonna give Joe a chance, because I don't want a – more back and forth between Fred and Nancy but I want to give you like one sentence if you want **** question.

Next Speaker: **** open it up.

Lawrence MacDonald: Let's go to questions. I'm gonna collect several. I will point to you and Heather will bring around the, ah, microphone. Ah, Bill Cline in the back, I've asked that when you speak, you identify yourself, um, by name and organization and, ah, please, ah, be concise. Ah, is there anybody else who wants to go after Bill? Bill, why don't you speak and then we'll recognize a few additional ones after you.

Next Speaker: Bill Cline in both the Center and the Institute. Joe, I was, ah, very pleased to see where you came out on global warming and on the mechanism for moving it ahead. I wonder if you could say a bit about whether you arrived at this through additional, ah, quantification on the economics of this and dealing with this very thorny question of how you compare people in the future against today and how you put up a damage estimate, ah, on the effects of global warming and how much there would be without action, or whether you sort of used a more general recourse to clearly this is something we should quit just talking about and take action. In other words, is there a, a new, um, um, further development of the economic analysis on this, ah, in, in, in – where you've, ah, arrived at this position?

Next Speaker: And if there isn't one, Bill can provide one. Isn't that right?

Next Speaker: Right, right. **** point. Coming soon.

Next Speaker: Coming soon. Ah, it seems like the people who want to speak are way in the back. I see two hands next to each other. Ah, the gentleman with the paper and the gentleman next to him.

Next Speaker: Yes hi. Masood Aziz from – uh, ABC. I wonder if the current political global environment – uhm, is not overwhelming already this discussion about globalization and that is that – uh, in the current political environment globally speaking in the world of global terrorism – uh, and the fact that the west is – uh –uh, by perception projecting its – uh, overwhelming military power – uh, since 9/11 – uh, over, over the globe I wonder if that is not – uh – you know, fueled for – uh, countercurrent to associate globalization with **** power of the west.

Uh, in looking at Latin America for example and occurrence, occurrence happening there. So I'd like the panel to discuss that association possibly and the fact that – uhm – uh – you know, putting the, the final death nail so to speak on the – uh, the good side of globalization, economic globalization.

Next Speaker: **** - uhm, the special interests are your special focus – uh, **** Nancy said, the special interest in developing countries are even worse than they are in American context and going on for that **** was Professor **** philosophy. I think you are in that line. Is there a chance that the American **** always can have **** of moral philosophy **** these **** pursuit upon a ****.

Next Speaker: And we're gonna take one final question in this group, the gentleman up here in the front.

Next Speaker: **** I work for myself and **** United States **** - uh, **** statements was everywhere by **** and I – I sometimes wonder **** I've had some experience **** in the United States **** and I – I – I wondered **** I even worked on this **** the **** market it's too fair **** American structure to **** we're trying to do ****. I remember one of the first things that happened in – uh, **** shortly after the **** negotiated **** agreement was that the United States took the small **** and now make it to the **** - uh, in – industries and so that **** rich was **** what 30,000 people **** industry. We then had to come and **** structure adjustments on them and I – I sometimes wonder if I – I – I get a – the – the free **** - sorry, the free market **** international finances of the **** that we have over here and – and I – I – I predicted after the first – uh, after the first **** crisis I predicted other crises – uh, and I wonder if you – if you would just get really **** free if that would not help – uh, because there was **** thing a free market I – I got the – uh, **** if it's free it's not a market and if it's a market it's not free and – uh, there is no such thing as free trip, as – as – and I – I like – I've also used that expression that Professor **** used about if you want a free trip you would **** documents so we obviously have **** so **** whether we like it or not but a problem of how to manage **** and how to manage finances in this world. I – I – I agree with Professor ****. We have – we have to learn how to manage internationally and – I – I come over from a small country and particularly I'm interested in democracy of small countries and not **** countries so this – this is the problem big or small, you're in trouble and perhaps it **** by the last speaker to say that during American economists **** not – sorry – sorry – **** economists **** to read Adam Smith and not **** prior about – not really – you – you **** Adam Smith **** including the – the sentiments **** sentiments – uh, but also had ****. Thank you very much.

Lawrence MacDonald: Thanks very much. We had four questions. Bill Cline's I think was the most straightforward. Are there any new – uh, quantification underlining the – the solutions to propose Joe – uh, on global warming. There's a question about – uh, terrorism and western and especially U.S. military power and whether that's – uh, tainting the views of globalization and making people more opposed to it – uh – uh a question about whether we really need chairs of moral philosophy perhaps instead of economics and finally a question about – uhm, free trade as opposed to managed trade and Joe, why don't you take the ones – all of them – in any order you want, the ones that interest you only and then I'll ask our panelists if they have anything to add and at this time, we'll take a . . .

Joseph Stiglitz: . . . They were – they were all interesting questions. Let me try to give a little bit of my time talk about it very briefly – uhm, the basic – uh, I – I was involved in – in

– in the discussion of – of global warming – uh, I got deeply involved and I was in the – you know, governmental Panama climate change **** which is the – uh, international body that is **** the scientific evidence about global warming including the impact – economic impacts in 1995 – uh, and wrote – uh you know, we made an assessment of the time. The evidence was overwhelming but I have to say that what has happened in the last decade – uh, as clearly – uh, things are moving faster than we thought. We were aware that there were – we call **** that there were some uncertainties and there are still a lot of uncertainties but – uh, all the information has come out on one of the uncertainty. That is to say that things are much worse – uh, the question is how do you think about dealing with uncertainties. Somebody put **** I was at a – a meeting of some of the top scientists about a week ago on this issue and I said this is actually something very different – uh, where – where the scientific community is – uh relationship to the – to the general population is very different.

Normally when we're talking about carcinogens, toxic waste – uh, the scientists are much more calm than the community. Everybody gets – indiv – uh, people get very excited about something – you know, health hazard and I just say well, yes it's a health hazard but so is everything else. In the case of global warming the scientific community is now in a panic because they understand the magnitudes of what can happen **** they call **** tipping planks – uh, complex dynamic systems – uh, what happens when the polar ice cap – uh, melts – uh, as the polar ice cap – uh, melts it no longer refl – the snow doesn't reflect as much energy out – uh, and therefore it – it so rakes the process of global warming. So there's absolutely no doubt that there's a lot more information that makes one more concerned than before. But the general view – uh – you know, and – uh, I want to say – uh, one of the metaphors that came out of that is like some people say we shouldn't do anything in response to uncertainty and I say it's like the – you're driving up in a car with – with very bad brakes down a hill facing a cliff, should you feel better because you can't see anything because of the fog?

Uh, if anything you should feel worse and – uh, my view is that – and – and I begin the chapter this way – if we had a number of different planets – uh, that if this experiment that we're doing on the earth of putting a lot of CO₂ – doubling, tripling the level of CO₂ – uh, if this experiment turns out we can go to the next planet and say let's all move there and we'll – we'll start over again – uhm, that would be one thing. But we don't have that other planet to go to so this is a real case where risk analysis comes with a very strong view about what you should do. Uh, the losses can be enormous and great and then the question is what is the cost? In my mind – uhm, I'm also very much **** – you know, the – the fact that other countries have managed to reduce their – to have levels of admissions GDP – uh, that are a third – a half of that of the United States. So, it's clear that one can maintain high standards of living.

In fact, the major proposal that I put forward here – a lot of people have put forward is that we have a tax on carbon and we substitute a tax on carbon for a tax on labor capital and what I find so – one of the sources of optimism is that – uh, in UK even the – even the conservative party has come out in favor of this kind of idea and that it makes so much sense from an economic point of view. Tax bad things, not good things and the net cost to society can be negative or at least in any case not very great so we're not talking about something that has a very high cost. So I – I look at the risk cost benefit analysis. It seems to me I don't have to do a detailed calculation. I like to see numbers even if they're flawed but – uhm, I – you know, I am a consumer of numbers – uh, but – uh, I think that in this case it's so overwhelming.

Next Speaker: Joe – uhm, you must have been on the panel for the Copenhagen consensus which Bill – uhm, did the paper on global warming and that – the Copenhagen consensus group basically didn't recognize the concept of a negative cost. They had . . .

Joseph Stiglitz: I was not on the panel. I refused to join that group . . .

Next Speaker: Oh, good . . .

Next Speaker: Because I saw . . .

Next Speaker: Okay . . .

Joseph Stiglitz: where they were going. It was a politically motivated group where the outcome was preordained and so yes, you can get a consensus about – if you choose people who all agree with you, you can get a consensus about – among them. Uh, that's not a great – a big deal.

Next Speaker: **** I say one point on the global warming. I agree with everything Joe said, Bill's read and – uh, on the need for dramatic action in the area but Joe said one thing as you **** I want to pick up. He suggested that the impact of – uh, global warming was particularly acute for poor countries **** cited Bangladesh . . .

Next Speaker: . . . And that – that's what Bill . . .

Next Speaker: . . . Yes, and Bill's book is coming on that but I just want to remind everybody – uh, if you've seen Al Gore's movie or should see it if you haven't seen it, you will note that just as Bangladesh gets – uh, inundated so does the lower third of Florida, Manhattan up to Ground Zero and the entire metropolitan area of Shanghai which is 30 million people so . . .

Next Speaker: . . . And for San Francisco too.

Next Speaker: Yeah. So it's pretty broadly based – uh, the point being that we all really have a big stake in this one – uh, there may be net distribution or effects against the poor but the rich are gonna lose a hell of a lot too so – uh, we all better – uh . . .

Next Speaker: . . . **** the – the – the asymmetry comes because the poor for the same – for much lower absolute costs measured in dollars face much bigger welfare costs and have less capacity to adjust . . .

Next Speaker: . . . Yeah . . .

Next Speaker: . . . That's where the asymmetry is . . .

Next Speaker: . . . They'll need help to adjust for sure.

Next Speaker: Maldives will be under water . . .

Next Speaker: . . . Yeah . . .

Next Speaker: . . . I met with a – a – in the last week – uh, during – I met with the – uh – uh, the presidents of a number of these islands – these countries who are seeing their – the – their end and in the case of Moldias . . .

Next Speaker: . . . And we don't let them migrate to . . .

Next Speaker: . . . Well, they're like **** planet . . .

Next Speaker: . . . Speaking of asymmetries and ill liberal global arrangements . . .

Next Speaker: . . . They – they don't like Joe's part about the planet except there are other countries.

Next Speaker: No, but the whole planet . . .

Next Speaker: . . . Yes, but they're not – it's not easy for people – this is an issue that Joe only touches on in the book. It's another next book where we have a wonderful book Joe's published from the Center. Let their people come but there are countries which as Lan Pritchett suggests now even and certainly in the future that are not viable as economies and yet we have a system of sovereignty without global management of people flows which prevent – uh, people from leaving as they were able to leave as Lan compelling shows – they were able to leave the great plains in the 1930s in this country. If they hadn't been able to leave certain drought stricken areas in this country then those places would be substantially poor today.

Next Speaker: Or Europe in the late 19th Century.

Next Speaker: Yeah.

Next Speaker: Or Europe in the late 19th – so that's a – it's a – it's a nice – uh . . .

Next Speaker: . . . Let me – let me tell you . . .

Next Speaker: . . . **** . . .

Joseph Stiglitz: You talk about a couple of the other questions – let – on – on the issue of – of – uh, terrorism – uh, there are three points and I'll make them very briefly. First – you know, one of the things that we realized is that not only could good things like – uh, goods and services, capital labor move more freely but so could bad things and that that has been one of the – uh, concerns about globalization. One of the things that we learned I think very forcefully from – uh, Iraq is that military power has very strong limits. The United States couldn't even – you know, manage – uh, a clear victory in a country of 1 percent – less than 1 percent of its GDP.

A lot of discussion about the relative role of military power versus soft power, the beginning of that debate we always said we had to win the hearts and minds – uh, and in fact one of the big critiques is that we have lost the hearts and minds and I think that the – that this is where again some of the discussion of fear of globalization enters in that if it is perceived that the way we are managing the whole system is unfair it feeds into that kind of hostility and clearly

if we don't pay attention – you know, while there's no clear – uh, theory about what gives rise to terrorism I think there – it – it is clear that a sense of despair, a sense of lack of economic opportunity – uh, high unemployment, especially among young males provides a **** feeding ground for – for – uhm, for problems.

Finally – and this relates actually to the last question – markets don't handle well a whole variety of problems of security and – uh, that I think has been highlighted – uh, by – uh, not just the terrorist – uh, throughout but other aspects of what's happening recently. For instance as I walk – you know, individual decisions and decisions of individual companies focus on what's minimizing my cost. When everybody makes those decisions it can have systemic effects and it can **** of economists focus on **** effects that differ from partially equilibrium effects.

I watched with a little bit of dismay as Europe – uh, over – uh, the '90s became more and more dependent on gas from Russia and it was the – the cheapest source of – of gas. Gas has a lot of advantages over oil – uhm, but one of the big disadvantages of gas is that oil you have to **** supply. If you can't get oil from one country you can get it from another. Gas, until we get LNG you are dependent on a pipeline of one or two pipelines. What happened last January showed how vulnerable Europe was. Russia decides to cut off the gas – uh, restrict the gas and there's a problem. And this was . . .

Next Speaker: . . . Ukraine – that was . . .

Joseph Stiglitz: . . . The Ukraine – then it added knock on problem to the rest of Europe because Ukraine responded by saying we're gonna take some of the gas that's going through our country on the way to Europe and we'll just use it. So, what – what it brought home was that as the market – the market didn't think about this. The markets in minimizing cost didn't think about the implications for security and I think – uh, I can give you lots of other examples which – for which that's true both in the context of markets but also in the context – even worse in the United States, a political – uh, agenda.

So America's been pursuing this crazy policy of drain America first so we use up all the oil in America so we become more dependent in the future on oil not doing anything about conservation that would have – make us more energy indepen – indepen – independent and would bring – bring down the global price. Uhm, another example of – of – of this huge inequity and irrationality driven by corporate interest is that Brazil has – uh – uh, after the 70 crisis of oil – uh, started doing research on bio fuels and alcohol based cars made a lot of progress. It was then **** by the world bank **** that's industrial policy. You shouldn't do that. They put it on hold but they didn't forget what they knew. That's a great thing – uhm, and then when the price spiked – the oil price spiked, they brought this back out and they have now been enormously successful in developing bio fuels. They become energy independent but right now the United States is imposing a \$.50 a gallon tax on ethanol from Brazil – a much lower cost to get ethanol from a sugar based – cane sugar based.

Meanwhile, we're giving a \$.50 a gallon subsidy to our corn based ethanol – AMD gets most of it – a very large share. We could be simultaneously improving ****, strengthening the environment, helping Brazil – helping the poor in Brazil because the cane sugar – the – the are that – that Nancy worked in a lot – uh – uhm, we could be doing all of this and instead, we're making – we're giving more money to the oil company – uh, countries – uh, and we clearly know what is driving – uh, that particular agenda. So, what I – what I want to stress

out of that is that – uh, I think we really do need to think about security. The markets don't do it automatically but unfortunately, the way we've been doing it has not been **** as it should be.

Lawrence MacDonald: Joe, I'm wondering if we can take that as your comment on the special interest question and jump straight to the question from Barbados but – uh, if you want to talk about – uh, moral philosophy, please go ahead.

Joseph Stiglitz: Oh, I – I think what I – just say **** make two – two very brief comments. First – uh, that – uhm, absolutely right that Adam Smith was much more aware of the limitations of Adam Smith than the follows of Adam Smith – uh, that – uhm, he didn't believe in the invisible hand. The invisible man says the pursuit of self interest reads as if by an invisible hand to economic efficiency if you really believe in the invisible hand, it would mean that the only sin is not being self interested enough. And that means those corporate executives in the United States who pay themselves huge – uh, compensation meanwhile robbing their country – their companies were doing – uh, the right thing.

The only thing is – the only mistake they didn't steal enough is that they have pursued their self interest more it would have been better. Clearly not true and anybody who reads Adam Smith realizes that he understands that it wasn't true but actually in the 200 years since Adam Smith we've learned some things and we understand even better why that's not true – uh, all kinds of problems of imperfect information, imperfect markets mean that the invisible hand is often – seems invisible because it's not there.

Next Speaker: It's nowhere to be seen . . .

Joseph Stiglitz: . . . It's nowhere – it's – it's not there. And – and – and – and – and this comes to the last – you know, question. You need – you need to have somebody overseeing some parts of it. Uh, no one – you know, the last time anybody tried their notion of free banking it had been failed numerable times but Milton Freeman went down to **** and got him to do it and it did a disaster. Chile is still repaying the debt that – from **** - their – almost their entire debt. Uhm, clear that governments make mistakes too and that I think the big advance in – in – in discussions is – uh, in – in economics is that we become both aware of market failures and government failures and the strategy is to trying to figure out how we make both of these work better and we need both. We're gonna need both. We're always gonna have both so it's not a question of one or the other and also the – the third sector **** society cooperatives – uh, and – and this – the question is how do you get these to work together – how do we strengthen both and how do you get them to work better together.

Lawrence MacDonald: Joe, I think I'm gonna end it here because I see some people clutching books and I think they're thinking oh, my goodness if we don't stop soon, I won't have a chance to ask Joe to sign my book and I know that that's one of the things that you generously agree to do. So I'd like to thank you and our panelists and the audience for joining us today. Joe just for the clarity for those who want books signed there's a table out front. You want to do that here or do you want to come up here? Where will you be?

Joseph Stiglitz: Out front. I . . .

Lawrence MacDonald: . . . You'll be out front where they're selling the books. Okay, thank you all very much.