
Branko Horvat¹:

**ON JOSEPH STIGLITZ'S BOOK: GLOBALISATION AND ITS DISCONTENTS (2002)**²

During my postdoctoral studies at the Massachusetts Institute of Technology – one of the best American Universities – Joseph Stiglitz attended the same school to get his PhD. He was one of the best students and a student tutor in math statistics. Together we attended lectures of Samuelson, Sollow and Modigliani that all won Nobel Prize later on. Nowadays, even Stiglitz is the Nobel Prize winner.

Stiglitz made a name for himself at one students’ performance when he wanted to introduce me to his colleagues. He started: “This is dr. Horvat from Belgrade, the Check Republic”. I interrupted him saying it was wrong. He immediately corrected himself and said, “I made a mistake, I mean from Romania”. I interrupted him again, and said, “It is not correct”. Joe did not get confused but added; “Now you see what American education is like!” Since then, he broadened American education with the curricula including information about larger number of countries from all over the world. His great wish was to visit Yugoslavia and learn about self-management system. But Yugoslavia fell apart before he got a chance to fulfil his wish. As a result Yugoslavia is not mentioned in his book and, especially, transition from controlled to market-oriented economy, which began in 1950 and which was far more successful from anything else in nowadays Europe. It can be only compared to Chinese success.

To get it straightforward, globalisation has its advantages and its drawbacks. Fast communications and information technologies make the globe shrink. Therefore, a great deal of business in all countries is done by several hundreds of international organisations. Those are World Health Organisation, World Meteorological Organisation, Interpol, World Post Union, International Labour Organisation, etc. Then there are United Nations with their agencies such as UNESCO, UNDP, UNCTAD and UNIDO which was founded under my presidency (which was planned to be located in Yugoslavia but because of the incompetence of the ex-federal administration, the headquarters were located in Austria where it became the core of the third world centre of the United Nations after New York and Geneva).

However, globalisation has its negative side effects, primarily in the field of economy. And that is precisely what Stiglitz deals with in his book. Global economy is run by three organisations: The International Monetary Fund (IMF), The World Bank and The World Trade Organisation (WTO). While only mentioning the World Bank and WTO, Stiglitz is primarily focused on IMF in his book.

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In fact, that is the first thorough analysis of the IMF. Stiglitz is especially competent for such an assignment. He was the leading economist of the World Bank that operates synchronised with IMF. Previously he was the Chairman of the Council of the USA President Counsellors on economy and hence got the close insight into American administration. Besides, the USA is the only country with the effective IMF veto.

Theoretical, and in fact, ideological ground for IMF is double folded. Neoclassical economic theory proves that the free market with highly restrictive assumptions is best for all. Since these assumptions are not valid in practice – what IMF never mentions – the free market is useful for developed and powerful countries and harmful for the undeveloped and weak. Second assumption stems from the history of the IMF. Namely, Keynes proposed the Fund for keeping global liquidity. When a certain country gets into international insolvency, it has the opportunity to apply to IMF that will pull it out of temporary difficulties. In the course of time, undeveloped and weak countries were faced with insolvency crises, and hence IMF was protecting creditors’ interests, i.e. rich countries’ interests. IMF insisted on price stabilization, which made it possible for the Croatian tycoons and Russian oligarchy to drag out the money and put it in a “safe place”.

The free market and creditors’ interests brought market fundamentalism to the theory—in fact, religion. George Soros, the American multimillionaire, launched the expression “market fundamentalism” several years ago. Stiglitz uses this example to describe IMF.

Stiglitz leaves aside the early stage of transition when IMF recommended “shock therapy”. Harvard professor Jeffrey Sachs made academic background. Naturally, “shock therapy” had no theoretical background. It was based on the fear of capitalist countries that should the transition be not fast enough the countries would return to the controlled economy. Since “shock therapy” was backed up with a large sum of money it was widespread used with appalling consequences. A few years later, IMF admitted the strategy was wrong. Nowadays, nobody mentions shock therapy.

In 1991, there was a conference on transition held in Washington. I was invited, as well. The main speaker was supposed to be Harvard professor Jeffrey Sachs. I accepted the invitation with the remark, “It does not seem logical that Harvard professor makes speech on the region he does not know, and that is the region, I have lived in and have dealt with it in a number of my works.” My suggestion was that I should be put on the agenda, and Sachs could give his remarks later on. There was a silence for three months. Then, they replied that it was not possible to change the agenda, but I would be welcomed. I did not go.

In mid-1990s, Stiglitz analysed IMF activities. The Fund was persistent in implementing its policy-religion of market fundamentalism. Wherever they implemented it, it caused appalling consequences. Two events are significant and hence, the author analyses them in detail. They are East-Asian crisis and Russian transition.

Market fundamentalism demands that all control should be abolished. In that way, the control of capital flow was nullified. When the interest rates are high, the capital flows
in. But, with the first sign of disequilibria, it flows away. That way the capital suddenly outflow from East Asia and the countries were faced with great difficulties. The “moral of the story” is: capital flows should be controlled.

The second case is Russia, which can serve as a good example to ex-Yugoslav republics. “Shock therapy” has caused a high rate of unemployment and low productivity. In fact, the crisis was greater than the Great Depression in 1930s. The damage caused was more serious than the damage caused by the fascists’ aggression in World War II. In comparison to 1990, in 2002 GDP in Serbia and Montenegro was 53%, Russia 72.4%, Macedonia 87%, Croatia 92.9%. Thus, even after a decade it has not reached its initial level. The oligarchies in Russia and tycoons in Croatia have come to the scene, withdrawing money from their country and depositing it in Cyprus and Switzerland. Corruption is widespread. Income is unevenly allocated. Destitution and grinding poverty have become part of everyday reality. The production has been devastated, and in that way, the society as well. When we take into account the transition of Russia after the IMF intervention we can see that the IMF recipe was wrong.

The religion of the market fundamentalism is based on so-called “Washington Consensus”. According to it, economic policy should be oriented towards three main objectives: price stabilization with market liberalization, fiscal strictness and privatisation. Alfred Marshall, two centuries ago, had already made the distinction between partial market and global balance. With 10% or 20% of the unemployed, we can speak of fundamental imbalance and price stabilization makes sense only for creditors. IMF does not pay attention either to unemployment or economic development, which is the key task for the economic policy of the undeveloped countries. Furthermore, fiscal deficit can finance economic development. Finally, Yugoslav economy was the most privatised economy in Europe, because the members of work councils and board of directors were private persons and not public servants. Therefore, there was nothing to be privatised. However, it was done in a way that the state grabbed all socially-owned capital, and then it sold it out to foreign capital and its favourites, very often under-priced.

Now, it is the time to point out the distinction between capitalist and socialist privatisation. IMF insists on capitalistic privatisation. In ex-Yugoslav countries it mainly consists of selling out national property to foreign capital. Socialist privatisation was implemented in 1950-52, when the stately owned companies were given to their employees, i.e. with the introduction of self-management. Socialist privatisation contributed to rapid economic growth. Capitalist privatisation brought about lagging productivity.

It is worth mentioning several specific features of IMF, which insists, on free trade, and at the same time developed countries are allowed to have strong subsidies for their agriculture. Naturally, undeveloped countries whose main production is based on agriculture cannot be competitive. Textile industry can be taken as a similar example. Another one is steel industry in which a great deal of capital has been invested. However, the USA did not invest enough into its new technologies for two decades that turned steel industry into a lame duck. Because of that, the American government, in spite of its membership in WTO and talks on free trade, implemented protective duty on steel export.
IMF has recently recommended Croatia that it should introduce flexible labour market, which Croatian government accepted without questioning. Stiglitz said about this topic everything he should (p. 96):

While workers were fighting for decent work, IMF was fighting for “flexibility of labour market”. It means as if the market would operate in a better way, but in practice it is a code name for lower wages and employees’ protection.

Joseph Stiglitz’s economic analysis is spotless, but his social analysis is defective. The author deals with transition from communism to capitalism many times. However, he has confused categories, which is not an academic hair-splitting. The transition from communism to capitalism is possible (and vice versa), or from controlled economy to market economy (and vice versa) which is not only an academic problem. It has already been pointed out that capitalist market and socialist self-management are essentially different. During the 1960s, a group of experts in Oxford studied mathematically and empirically the market orientation of ten European countries. It classified Yugoslavia between Sweden and West Germany. Obviously, they are market-oriented economies.

At the end of the book there is an epilogue written by Jože Mencinger from Slovenia. While other ex-Yugoslav countries have not reached its productivity level from 1990 until 2002, Slovenia is the only one that has increased its productivity by over one quarter. At the time of Slovenian independence, Mencinger was the vice-president. He opposed to Jeffrey Sachs (who came to Slovenia, as well) and IMF’s destructive shock therapy. He did not completely succeed, but did enough to make Slovenia do better than any other ex-Yugoslav countries, since they were not lucky enough to have a vice-president such was the Slovenian one.

Ministers of finance and their employees in all ex-Yugoslav countries should read Stiglitz’s book. Still, it cannot guarantee the economic success, but would, at least, diminish their allegiance to the IMF. Indebtedness has been increasing yearly, and stand-by arrangements have become a constant. At the time of Yugoslavia, there were no “stand-by arrangements”, and indebtedness was considerably lower than nowadays (in Croatia, for example it was six times lower).