Free Trade Can Be Too Free
Economist Joseph Stiglitz makes the case against unfettered globalization

BY PETER COY

As an economist, Joseph E. Stiglitz has credibility galore. The Columbia University scholar shared a Nobel prize in 2001 for helping develop the influential field of “information economics.” Before that, he was President Clinton’s top economic adviser and then the chief economist at the World Bank.

Now, though, using his full intellectual firepower, Stiglitz is attacking the Economic Establishment from within. The key issue: Would the economy benefit from more government intervention? Mainstream economists, by and large, are uncomfortable with the idea of expanding the government’s economic role. Even those who think of themselves as liberal tend to favor markets wherever possible.

But Stiglitz argues that targeted government action would improve the functioning of the economy. In his view, information economics—the field that he helped create—demonstrates that unfettered free markets can often break down, leading to problems ranging from unemployment to inadequate basic research to underpricing by banks. “He’s a strong voice and conscience for what true economics says about things, rather than the snippets of economics that are convenient for one party at one moment,” says New York University visiting scholar Jason Furman, a past Stiglitz collaborator who was director of economic policy for the 2004 Presidential campaign of Senator John Kerry (D-Mass.).

Stiglitz’s arguments have been finding receptive ears in the U.S. and abroad. It’s not just his ideas: He speaks and writes in a way that resonates with ordinary people. “He’s read by students, by policymakers, by media. He definitely is one of the most influential economists globally, all over the developing world particularly,” says Turkish Kemal Dervis, administrator of the United Nations Development Program.

GAMMA QUADRANT?

At the moment, Stiglitz’ No. 1 issue is trade. He attacks the so-called Washington Consensus, which prescribes privatization, fiscal discipline, deregulation, and free trade as the cure for the developing world. He says that approach can rip the delicate social fabric of developing countries, provoking unrest. Instead, he says rich countries should lower tariffs and let the poorest countries keep their barriers mostly in place for now to protect jobs and develop domestic industries. Rich economies, he says, should help poor ones build the institutions and infrastructure they need before they can open their markets.

Stiglitz’ arguments are stiffening the resistance of developing countries to concessions in the Doha Round of global trade talks, which are threatening to collapse. Pascal Lamy, director-general of the World Trade Organization, says Stiglitz understimates the benefits that poor countries get from trade. But he acknowledges Stiglitz’ influence. Says Lamy: “Many places on this planet would love to have him as a spokesperson.”

The rap on Stiglitz is that the agenda he’s pushing has little to do with his Nobel-prize-winning work. Kenneth Rogoff, a former chief economist of the International Monetary Fund, once accused Stiglitz of being out of touch with reality as he put it, living in “the Gamma Quadrant.” Olivier J. Blanchard, a leading macroeconomist at Massachusetts Institute of Technology, once said that Stiglitz’ warnings to Eastern European nations about the dangers of privatization were “more often than not catastrophic.”

Stiglitz responds that his policy prescriptions do flow out of his academic research. The essential insight of information economics is that markets often mislead whenever one party to a transaction knows more than the other, or when critical information is hard to get. Small businesses, for example, often have a hard time getting bank loans. The reason?
Lenders don’t have enough information to distinguish between creditworthy small businesses and those that are more likely to fail. According to Stiglitz, Adam Smith himself—the patron saint of antigovernment economists—was no doctrinaire believer in markets. “Smith had a very nuanced view,” says Stiglitz. “He was very aware of market failures.”

Stiglitz, 63, inherited New Deal thinking from his parents while growing up in the steel town of Gary, Ind. His office is furnished with mem- ber of the traveling elite, including a photo of him looking like Yul Bryner (with hair) inumphs in a gold costume and upturned shoes as he sits on a throne in Thailand. He comes across as rambunctious and affable, but he has a streak of combative ness.

Stiglitz resigned from the World Bank in 2000 after clashing with then-Treasury Secretary Lawrence Summers. In 2002 he harshed Treasury and the view in Globalisation and Its Dis- eunts. More than 1 million copies were sold, and the book was translated into 37 languages, from Arabic to Sinhala. Now much of his energy goes into the initiative for Policy Dialogue, which devises “policy alternatives” for developing countries. In recent weeks, his name has been in headlines in Indonesia, Cuba, Italy, India, and Kyrgyzstan, and he wrote op-eds for papers in Pakistan and Taiwan.

Many American politicians aren’t eager to embrace him. Senator Hillary Rodham Clinton’s (D-NY) press office failed to respond to repeated calls for comment for this article. But Stiglitz did have an influence on Kerry’s campaign, says Fausing. Stiglitz says that helping poor countries will be good for rich ones. Americans would pay lower taxes if subsidies to U.S. farmers were eliminated. And more wealth in the developing world will increase demand for U.S. exports, while making poor countries less of a “fertile feeding ground for terrorism,” he says.

The angst over globalization is widespread. That alone ensures Stiglitz, an eloquent and articulate critic, of long-lived influence.