

By Johann Hari.
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“The International Monetary Fund believes in free market capitalism – but only for the developing world, not for rich countries; Joseph Stiglitz”

Picture a man who dedicates his life to warning the world about the humanitarian and environmental disasters that the International Monetary Fund leaves in its wake. You are, I'd wager, envisaging an earnest, sandal-wearing Green Party member, or a balaclava-wearing anarchist kicking in a McDonald's window. I'm pretty sure that you are not picturing a Nobel Prize-winning economist who was the chief economist and vice-president of the World Bank until three years ago.

Joseph Stiglitz is a very unlikely radical. He looks like a caricature of a Wicked Capitalist from a Bolshevik propaganda poster circa 1917. You know: the ones where a pig-like businessman rests his feet on a perspiring, emaciated worker and spoons caviar into his fleshy gob. Stiglitz is round and portly, with braces to hold up his trousers. He has a big grin, worn on a mouth that looks like it was born to hold a fat cigar. Yet he is one of the most important left-wing economic and political thinkers of our time, and his agenda cuts to the heart of the most urgent moral issue in the world: mass poverty.

When Stiglitz joined the World Bank, he thought he was entering an institution dedicated to lifting the most desperate people out of poverty. "I was chairman of the Council of Economic Advisors in the US before I joined," he explains, "so when I went to the World Bank and was asked to look at a developing country's finances, I would always ask myself one question: if I were the head of their Council of Economic Advisors, what would I do to get recovery in their economy? How would I reduce poverty?" But it soon became obvious that this was not what the IMF was all about at all; he had fallen for a naive misperception of its purpose.

"That was not their mindset," he says now. "They were interested in one thing. They looked at the country and thought, 'they need to repay the loans they owe to Western banks. How do we get that to happen?' So they would never ask, 'should we give this developing country a bankruptcy procedure so they can have a fresh start?' They thought that bankruptcy was a violation of the sanctity of contracts, even though every democracy has a bankruptcy law for people who have persistently failed. They were interested in milking money out of the country quickly, not rebuilding it for the long term."

His three years at the World Bank were not what he expected. "I saw first-hand the devastating effect that globalisation can have on developing countries, and especially the poor within those countries," he says. He found that "decisions were often made because of ideology and politics. Many wrong-headed decisions were taken; ones that did not solve the problem at hand but that fit the interests or belief of the people in power... Decisions were made on the basis of what seemed a curious blend of ideology and bad economics, dogma that sometimes seemed to be thinly veiling special interests. It is not just that they often produced bad results: they were antidemocratic."

He found that "the IMF's remedies failed as often as they worked. IMF structural adjustment programmes led to riots and hunger in many countries; even when the results were not so dire, even when they managed to eke out some growth for a while, the results went disproportionately to the better-off, with those at the bottom sometimes facing even greater poverty."

Of course, the IMF was not wilfully malicious, devastating developing economies for fun. No; it had become saturated with a new and extreme ideology which its exponents sincerely believed would help the poor – even though its basic premises were flawed. The IMF was hijacked in the early 1980s by a sect Stiglitz calls "the market fundamentalists", who preach an extreme variant of capitalism that has never been tried anywhere in the developed world. They formed a new "Washington Consensus" between the IMF, World Bank and US Treasury about how developing economies should be run. They became "the new missionary institutions" of Thatcherism and Reaganism- with lethal results.

The most horrifying example of how this ideology works in practice can be found in post-Communist Russia. Incredibly, after more than a decade of IMF capitalism, life expectancy is now lower than under the Soviet Union. "The Russians were told to adopt a form of capitalism that no country has ever adopted. They were told it was American-style capitalism, but it wasn't at all," Stiglitz says. The IMF "tried to create a shortcut to capitalism, without creating the underlying institutions." They privatised

without putting in place any competition regulations - so they replaced vast state monopolies with vast private monopolies. They created an extremely unequal society, without creating any safety net for the victims.

The result is that "the Russian middle class has been devastated, a system of crony and Mafia capitalism has been created, and the one achievement, the creation of democracy and a free press, seems very fragile," he explains. The neoliberals used Russia as their own personal chemistry set to test out their extreme theories; and the results are now clear for all to see.

They pushed the Russians to do things that no democracy would ever try. For example, Stiglitz explains, "we vehemently opposed privatisation of social security under the Clinton administration, but we encouraged Russia to do it. Wall Street likes that privatisation, because they make profits out of it, but it's not American-style capitalism, and it's just dishonest for the IMF to claim that it is. In the US, we have rejected the use of VAT as a main source of taxation, because it is so regressive and punishes the poor. But the IMF - without even noting the regressivity - has pushed it across the world."

He goes on, "another example: we [in the US] have a central bank that focuses not only on inflation but also employment and growth. Yet the IMF - under the aegis of the US Treasury - tells Russia and other countries' central banks to focus solely on inflation. Wall Street likes that because they just don't care about jobs and employment, except for their own industry. But they do care about inflation, because that hurts the value of their bonds."

Many of their routine policies are disastrous. "Rapid capital market liberalisation, in the manner pushed by the IMF, amounts to setting developing countries off on a voyage on a rough sea, before the holes in their hulls have been repaired, before the captain has received training, before life-belts have been placed on board," he says.

Nor has the IMF learned its Russian lesson. During the East Asia crisis in the late Nineties, Stiglitz begged the IMF not to repeat these mistakes but he was slapped down - only to be vindicated in the most terrible way as the IMF's defiant policies proceeded to worsen the crisis in the way he had predicted. "The disturbing thing is that in Iraq, the current administration is replicating all the failures of what happened in Russia. It's as if they have not learned a single lesson from the failures in Russia. It's as if they thought Russia was a major success, as though the only problem was that it didn't go fast enough. It's putting dogma above reality."

The tragedy is that this is a grotesque perversion of the IMF's original purpose. As Stiglitz has explained: "In its original conception, the IMF was based on a recognition that markets often did not work well - that they could result in massive unemployment and might fail to make needed funds available to countries to help restore their economies. The IMF was based on the belief that there was a need for collective action at the global level for economic stability ... Keynes would be rolling over in his grave if he could see what has happened to his child." He paces the room as we speak, as though he physically cannot bear to be still while all this injustice is going on. His whole physical stance - constantly moving, slightly agitated - cries that it is a scandal that the very institution that should be helping poor countries crawl out of poverty is, in fact, placing massive obstacles in their way.

In the 1980s, the World Bank shifted from only giving out loans for specific projects like dams and roads to giving out "structural adjustment loans". Under this new formula, money would only be handed over if the country agreed to a radical restructuring of its economy in line with the IMF's hardline ideology.

These IMF strictures are so extreme, Stiglitz explains, that they subvert democracy in developing countries. Even their own internal operating practices showed a lack of respect for democracy. "There is no openness even to discussion within the IMF," he explains. "When I tried to get a public discussion going about how to deal with the East Asia crisis and what was happening in Russia, they said no way. It's a mindset reflecting a lack of understanding of deliberative democracy."

Far more importantly, though, this mindset is then projected onto other countries. The IMF insists that countries obey its strictures, even if their democratic populations are howling against them, as they were in Argentina. In Indonesia, wide scale riots broke out after the IMF slashed food and fuel subsidies for the very poor. A crucial question for Stiglitz is: can social democrats elected in South

America carry out the programmes on which they were chosen by their people, without being crucified by international financial interests? Can they invest in schools and hospitals without being slapped down?

Some social democratic leaders are now fighting back against the IMF after more than a decade of what Stiglitz calls "lost growth". "The new agreement with Brazil was a landmark," he explains. "The new President [Lula Da Silva] was given enormous leeway to go ahead and continue his social democratic program. A lot of people were very unhappy with that, but it appears he's going ahead. He could do it because he had the IMF over a barrel. He basically said: 'If you don't lend me the money, I'm not going to repay you.' Not lending the money would have had a very high cost for the IMF, and Lula knew it was not going to cost him very much. He was in a position where politically he could stand up to the IMF, he had the courage to stand up to the IMF, and the IMF had an incentive to back down. It's not clear that there are very many countries in that situation. So if you took a poor African government, would they have the confidence to stand up to the IMF, and would the IMF have the confidence to stand down? No, not in general."

He predicts now that "many more countries are going to try to do what Brazil has just done, and what Malaysia did in 1998. They said: 'we will do what we want to do. If you want to give us the money, fine. If not, that's your choice.' We've had a number of examples of that in the last five years. That's a fundamental revolution." His advice to developing countries is: "No agreement is better than a bad agreement. The damage of not having an agreement isn't that big, but the damage of having a bad IMF agreement is enormous."

He continues, "The poorest countries are in the toughest position, because they get variously subsidised money. They have a real bribe at stake. The IMF says: 'I will give you a gift of X million dollars, if you behave the way we want you to.' Well, I think in many cases countries are looking at the size of the gift in relation to the damage the IMF conditions will do, and deciding not to take the money."

Increasingly, developing countries are rejecting the IMF outright. "The moment Thailand and Indonesia could repay their loans, they did and told the IMF to get out." As somebody who worked with these people every day, Stiglitz captures the IMF mindset perfectly. "A common characteristic is: 'We know best, and they [developing countries] should do what we tell them to. We're not doing it in our interests but theirs.' They really see themselves as a harsh doctor, giving them the cod liver oil they need, even if they don't want it. The problem, of course, is that quite often the medicine is not the right medicine - quite often it kills the patient. And today modern medicine recognises that bedside manner is very important. It affects the recovery of the patient."

Nobody can accuse Stiglitz of being some far-out left-winger. I find it intensely annoying that the IMF's defenders try to dismiss anybody who criticises their vicious (and wildly, blunderingly ineffective) variant of capitalism as if we were all followers of Leon Trotsky. Stiglitz arms us with a moderate democratic capitalist framework from which to savage their extremism. Indeed, Stiglitz fears that the IMF is discrediting the cause of moderate capitalism across the world, by making the poor associate all forms of markets with massive income inequality and unemployment. He advocates an IMF that promotes European-style social democracy - or the kind of society liberal Democrats want to create in the US - where markets are the engine of the economy and essential to wealth generation, but government intervention also corrects some of its failings.

"The thing that I find so scandalous in the contrast between moderate capitalism and the Washington Consensus variety is that, after all the scandals of Enron and Arthur Andersen and so on, the head of the New York Stock Exchange can engage in a compensation package - giving almost half the income of the New York Stock Exchange to these people - and he doesn't even think there's anything wrong about it," Stiglitz says. "And the other people on the board don't see anything wrong with it either! It's very clear that there isn't yet a consensus in America that this kind of rampant greed has anything wrong with it. Most people think there is, but a lot of the people in decision-making positions don't."

Stiglitz also excoriates the intellectual incoherence of the IMF's own behaviour. "The IMF is always preaching free markets, but their major business is bailing out Western banks and intervening in exchange rate markets! Their whole business is government intervention," he says, with a look that is half-bemused, half-appalled. "Why have they decided that this form of government intervention is okay, but every other form is completely taboo? I've discussed this at length with them, and I've got to

say, there is no intellectual coherence or framework there. You ask them: 'Is there any economic theory or research that shows that this is the one area where intervention works?' There's none. Absolutely none. It's naked self-interest." They are prepared to say: "We believe in markets, but ..." when it is in their own interests, but not in the interests of the poorest people alive.

Stiglitz advocates a massive overhaul of the IMF. It should, he argues, be excluded from dealing with development or with economies in transition, focusing instead on crises (which was, after all, its original purpose). Even when addressing those crises, it needs to abandon its promotion of market fundamentalism, which has been definitively shown to be a disaster. "When there is a bend in the road and a single car has an accident, one can blame the driver. But when, day after day, crashes occur at the same spot, one begins to suspect there is something wrong with the road," Stiglitz comments dryly.

The IMF must abandon "conditionality" - where they only give loans to countries on the condition that they obey IMF orders - and replace it with a policy of "selectivity". This new strategy would require the IMF to, in Stiglitz's words, "give aid to countries with a proven track record, allow them to choose for themselves their own development strategies, [and] end the micro-management that has been such a feature of the past." He stresses the importance of finding democratic ways to develop poor countries. Countries, which have established a consensus around introducing markets and developing their own form of capitalism, have far better long-term rates of growth than countries which experience capitalism as an assault from the outside.

Stiglitz admits "there has been an enormous amount of reform in the IMF since my book [Globalisation and its Discontents] came out. I think it's helped that movement. Conditionality has come down, participation [by developing countries] has gone up, there are better rules on bankruptcy." Yet there is still "a very, very long way to go" before the IMF is promoting a "sane" form of capitalism.

Yet even a total overhaul of the IMF will not be enough. Stiglitz also relentlessly argues for a transformation in the existing global trade rules. At the moment, the Washington Consensus forces developing countries to open their markets to Western goods, yet it also allows developed economies to protect themselves from anything made in the poor world. This is crushing businesses in the developing world before they even have a chance to take some faltering steps.

A key issue here is the vast amount of money that the developed world gives to its farmers in government handouts. These subsidies are throttling the agriculture industry in Africa and South America - and they are not even substantially benefiting ordinary farmers in the West. "We have huge corporate interests in farming. We're not talking about small family farms," he says. "It's a huge commercial interest. They spend a vast amount of money on lobbying. Their profits would probably go down if we cut subsidies, so they're going to fight tough against any reduction in subsidy. They get a 100 per cent subsidy. That's a lot of money going to just 25,000 farmers."

The intellectual poverty of this policy is, to Stiglitz, absolutely clear. "I don't know anybody - literally not a single person - who would defend Western agricultural subsidies or say they are fair. The best defence anybody offers is to say, well, it's politics. That's an amazing situation, where you have a global trading system that everybody agrees is unfair." By this point, Stiglitz is speaking so quickly - with such urgent moral force - that I have to turn my tape recorder down to "slow" just to transcribe it.

There's a bizarre irony here. The very people receiving this explicitly socialist agricultural subsidy - as socialist as the old Scargillite handouts to the miners - think of themselves as hardcore free marketers. The supposedly uber-marketeers of the Bush administration, for example, have introduced vast increases in farm subsidies that blatantly defy their own thought. "There's a vast dissonance between free-market ideology and what's really going on," Stiglitz says. He knows these people well, so I ask, as politely as I can, how they maintain their self-image. Are they knowingly hypocrites, or are they deluded? "I don't know how they see themselves one way and act in a completely different way. I really don't know."

The Cancun summit this September - which was supposed to be a "development round" in the interests of poor countries - fell apart when poor countries refused to accept the terrible deal they were being offered. "The experience at Cancun is partly a victory for democracy," Stiglitz says. "What the United States representatives have always said when they go into these trade negotiations is: 'We agree with

you, our agriculture policy is terrible, but what can we do? We are a democracy and our Congress insists we have these subsidies.' But now, all of a sudden, the United States has discovered that two can play that game. The developing countries came back and they said: 'You know, we're democracies too, and if we come back with another unfair trade agreement, we're out of office. We have no choice. So either we construct a fair agreement or there's no agreement.'"

"The issue [at Cancun] was - should the developing countries accept a reform that would make the world trading system even more unfair?" he continues. "The answer was no. They said they could live with the current rule of law under the WTO, terrible though it is, but they won't move to something even worse."

An actual improvement in their conditions - and the lives of the one billion people who live on less than \$1 a day - was not, it seems, even on the agenda. But does Stiglitz think that things can get better than this? "Not with Bush there, but once he's gone, the answer is yes, but only with difficulty. The developing countries will not accept anything that isn't significant on agriculture." He sees three possible avenues of hope, however. The first is within the United States itself. "One good side is to realise that agriculture is only 3 per cent of the labour force in the US. It's minuscule, but it takes a huge amount of money. American consumers are worse off, tax-payers are worse off. America itself is being held up by these special interests. Even the farmers don't do well out of it. It's just a few crops - many of the vegetables are not covered. It's rich corporate farms that benefit."

"The support for this state of affairs is very weak in the US," he continues. "So one scenario is that exporters and others get together and say: 'We've been held up by this small group of special interests for a very long time and now the cost is too great. We'll have a transition away from this.' Then we'll get progress on this."

The second is also partially present in his home country. "The Seattle protests and the demonstrations really brought home to everybody - North and South - how unfair our trade practices are. That's a growing awareness." Thirdly, he can also see a possible improvement coming if the developed countries are more assertive in using the WTO rules to their own advantage. "I don't want to recommend this, but it's what will probably evolve," he says quickly, before explaining: "At the moment, the United States uses a huge number of non-tariff barriers against dumping. [Dumping is where goods are off-loaded onto a country at less than market value - thereby wrecking the chance of the country's own industries being able to compete]. The developing countries have not used the full panoply of instruments that they have to legally keep out dumped American goods." He barely seems to take a breath. "For example, under American dumping laws, if you sell goods below cost, you're dumping and you have to pay dumping duty. Now, both the law and the way it's implemented are totally unfair. Companies are given 30 days to respond to a complaint. If they don't respond in English in that time frame, a dumping duty is imposed based on the best information available, usually supplied by the firm that's trying to keep this stuff from being dumped."

"Well, it would be very easy for a country - say, China - to do the same to the United States," he says as he paces some more. "They could say, okay, you have 30 days to file your forms - completed in Mandarin - and if you don't, tough, we'll use best information available and keep it out of our market. In the United States, there was a study recently that found that if you used the United States' own domestic definition of dumping, most US firms are dumping."

Although Stiglitz would prefer to see the spread of a social-democratic form of capitalism, he argues that it would be progress if the IMF and US tried to spread their own brand of free-market capitalism. At the moment, they do neither. They smother developing businesses in their cots, and maintain trade barriers that are antithetical to their own rhetoric of free markets. Any company director who behaved in this way in the United States itself would be jailed.

The US has narrowly promoted American business interests at the expense of American values like competition. Within the Washington Consensus, Stiglitz found that "the only arguments that were admissible related to our immediate economic advantage. [It was] a kind of mercantilist philosophy which saw growth in developing countries as positive merely because it opened up more markets for American goods."

One message burns through everything that Stiglitz says: It doesn't have to be like this. Or, to borrow an anti-globalisation slogan: Another World is Possible. This is not about airy opposition to "profit" or "bosses" or (worst of all) "The System". It is about being disgusted by the fact that we have rammed down the throats of the poorest people on the planet a crazy strand of hyper-capitalism that has added to their problems. Too often, Stiglitz says, "globalisation, as it has been advocated, often seems to replace the old dictatorships of national elites with new dictatorships of international finance." Yet we could be acting in a different way: promoting democracy, and encouraging the poor to develop successful economies which - like our own - use a mixture of markets and government provision according to local needs. Stiglitz shows that it is not only immoral that we are not already pursuing this path - it is terrible economics.

Joseph Stiglitz is the child shouting that the IMF emperor has no clothes. That the child is also anxiously waving his Nobel Prize in Economics should make the crowd a little more inclined to listen. If we don't start to soon, we will be damned by history as - at best - fools or - at worst - people whose response to the poor was not to offer help but to give them a good kicking with a large IMF-funded boot.

Joseph Stiglitz's latest book 'The Roaring Nineties' is published by AllenLane