‘Rebel’ Stiglitz: IMF’s Last Line of Defense?

by Mike Billington

Prof. Joseph Stiglitz, currently of Columbia University, has taken the global palm as “financial insider-turned-radical”—who, even while serving as Chief Economist at the World Bank, broke from supposed International Monetary Fund (IMF) orthodoxy, to expose its brutality and destructiveness toward the Third World and the former Soviet states. More recently, Stiglitz has emerged as the darling of the World Social Forum (WSF), the anti-globalization countergang to the central bankers’ annual Davos Economic Forum. The WSF is today’s version of “left anti-capitalism,” where hundreds of non-governmental organizations gather their forces, to vent their anger at the rapidly deteriorating economic and social conditions around the world. It also serves as a planning ground for anarchist disruptions and violence at various meetings of the international financial institutions such as the IMF, World Bank, and the World Trade Organization (WTO). In the January meeting of the WSF, in Mumbai, India, Stiglitz was touted as the star attraction, denouncing the IMF.

Ironically, despite this reputation, Stiglitz is building one of the last lines of defense for the bankrupt and discredited IMF, and the U.S.-dollar centered system which it is now propping up.

Among many Third World leaders, struggling against the destruction of both their economies and the well-being of their citizens under conditions imposed by the international financial institutions, Stiglitz has appeared a rare, welcome case of a Nobel Prize-winning economist who acknowledges their plight. But while he has publicly attacked the devastation wrought by the IMF and the “Washington Consensus,” he supports the core of the bankrupt monetary order: floating exchange rates, and globalization.

A review of Stiglitz’ actual financial and economic policy proposals, and the programs he implemented in the 1990s as one of the Clinton Administration’s leading economists, reveals that his primary purpose is to save the IMF system itself. At no point has Stiglitz acknowledged the bankruptcy of the international financial institutions; moreover, today he continues to peddle the lie that there is a “recovery” in the U.S. economy. Stiglitz remains an insider among the banking circles he attacks, precisely because these bankers want one of their own in charge of trying to fix the system as the current crisis reaches a breaking point. They are counting on the likes of Stiglitz to block debtor nations’ support for what Lyndon LaRouche has called the “Franklin Roosevelt” solution—putting the banks through bankruptcy reorganization, and returning to the Bretton Woods policies of fixed exchange rates, protective tariffs, and international investment credits.

A Similarity to Marx

Reading Stiglitz, one is reminded of the opinion of Karl Marx expressed by the great Dr. Sun Yat Sen, the father of the republican revolution in China a century ago. Dr. Sun was inspired directly by the American System of physical economy, as developed by Alexander Hamilton, Henry Carey, Friedrich List, and Abraham Lincoln. Sun admired the passion with which Marx described the ravages of Europe against its working populations, and against those of the European colonial empires. But, he said, Marx was at best a “social pathologist,” who could identify a disease; he was no “social physiologist—he knows nothing of the laws of social progress.”

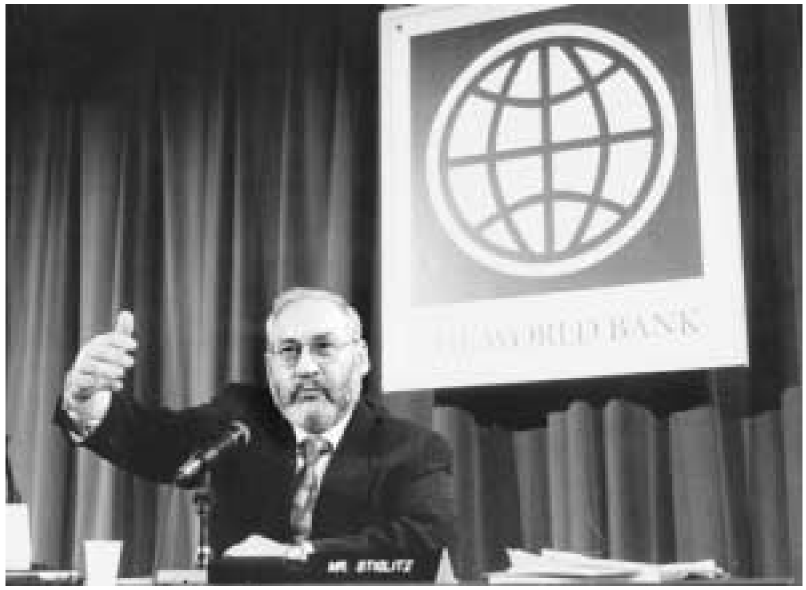
Stiglitz’ biting critiques of the damage done by IMF orthodoxy, explain why he has been appreciated by many circles in the developing world and the former Soviet states. His *Globalization and its Discontents* (2001) accurately described IMF policy following the fall of the Soviet Union. The Fund created incentives for asset stripping rather than investment in reconstruction, by both foreign “investors” and by a domestic oligarchy, which emerged as a result of the forced privatizations (“robber-baron privatization,” Stiglitz called it) of the state sector industries. He noted that the best legacy of the Soviet era, the highly-skilled scientific and technical manpower, was dissipated, or dispersed abroad. He documented the collapse of production, the impoverishment of the population, the demographic collapse, and the enormous wealth stolen from the nations.

Likewise, in regard to the developing sector, Stiglitz is blunt in ascribing *intent* to the IMF’s imposition of deadly policies, especially in Asia after the so-called “Asian Crisis” of 1997-98. In a 2003 essay, for example, “How to Reform the Global Financial System,” Stiglitz showed how the IMF/Washington Consensus reversed the world’s net flow of capital, away from the poor nations and into the United States, to finance the massive U.S. trade and current accounts deficits. He described the 1990s process by which hot-money investments into the Third World were structured so that all risks, from fluctuations in interest rates and currency-exchange rates, or from the any other source, were imposed entirely on the recipient nations. The crisis of 1997-98 left them holding huge dollar-denominated debts which had to be paid in devalued currencies.

Stiglitz argues that during the period he served on the Clinton Administration’s Council of Economic Advisors (1993-97, chairman from 1995-97), he opposed its policy of demanding rapid liberalization of financial markets and investment policies in developing nations and in the former communist states, arguing that they should be allowed time to develop “modern” banking systems and legal institutions.

On this, he claims, he was overridden by the Treasury Department (Secretary Robert Rubin and Deputy Secretary Larry Summers), who convinced Clinton to adhere to the IMF's "liberalization" pre-condition for any lending or investment, even from the private sector.

Stiglitz' self-defense regarding his role in the disastrous globalization process of the 1990s is self-serving. He is an unabashed supporter, and even one of the architects, of the underlying principles of globalization—he simply wants to make it work, without challenging the collapsing financial architecture.



Economist Joseph Stiglitz launched his celebrated attacks on the IMF from the World Bank—but despite all his critiques and accusations about the "roaring '90s," he still insists that decade's post-industrial "prosperity" was real, and is coming back. His "opposition" and its global following is actually the last line of defense of a bankrupt dollar system.

Free-Trade, 'Produce Cheap' Axioms

Lyndon LaRouche, in his "On the Subject of Tariffs and Trade" (*EIR*, Feb. 13, 2004), described how the average American citizen is afflicted with a "delusion concerning the nature of both economy in general, and money in particular. That citizen is a victim of belief in a set of axiom-like assumptions which are false to reality, such as the dogma known as 'free trade,' a dogma in which he believes more or less devoutly. His beliefs are bounded by a set of such axiomatic, or axiom-like assumptions, which prompt him, or her, to deny any actuality which exists outside the bounds of consistency with his delusory assumptions."

Stiglitz provides us with a description of the axiomatic assumptions to which he adheres. In a 1999 essay called "Quis Custodiet Ipsos Custodes?" (who shall guard the guards?), Stiglitz asserted widespread agreement—his included—about the lessons of the "socialist/communist experiment that began in the Soviet Union in 1917." These axioms are, he wrote: "Central planning cannot replace markets, and even market socialism cannot replace the incentives associated with capitalism—incentives to produce goods more cheaply, to produce what consumers want, and to innovate." From this consumerist foundation, he challenged the *methods* used in the "transition to market economies" of the former Soviet states—but within the "bounds of consistency" with his stated assumptions. Stiglitz is a product of what LaRouche has described as the transformation of the American self-image as a producer, to the post-industrial mentality of "consumerism," in which the self-interest of the citizen lies not in the quality of what he produces towards the nation's development, but only in cheapening the costs of his consumption.

Stiglitz was awarded the Nobel Prize in economics in 1992 for his creation of something called "asymmetric information" theory, which argues that there is no such thing as free trade, since in any business transaction, one side has better information than the other. It is the role of government and international financial institutions, he asserts, to assure a "level playing field," and to avoid the "moral hazard" which arises when bankers and investors are bailed out after a crisis, at the expense of weaker and less informed borrowers.

But his denial of Adam Smith's "invisible hand" does not extend to a denial of Smith's other famous lie on behalf of the British East India Company: the so-called theory of "comparative advantage." Smith, deployed to subvert the American Revolution, argued that the former colonies should stick to agriculture and raw material extraction, since the British held the "comparative advantage" in manufacturing.

In an interview with the Carnegie Council on Ethics in International Affairs on Nov. 5, 2003, Stiglitz was asked if it were for the best that the U.S. economy "no longer makes anything, . . . we sell our brains, we sell our services." His answer would endear him to the synarchist bankers he claims to oppose:

> It is largely true. Right now in the U.S. only about 14% of our population is engaged in manufacturing. There has been a transformation analogous to what happened a little more than 100 years ago. We went from agriculture to manufacturing, and now we are going from manufacturing to a service sector economy. At the global level, this has some very important implications. We talk about the principle of comparative advantage: Each country should be exporting and producing the things it is relatively strong in, importing the things that it is relatively weak in. Our comparative advantage is in skill-intensive, research-intensive areas. If we special-

ize in those, our incomes will rise. China and other developing countries have a comparative advantage in manufacturing.

'Every Economic Downturn Ends. . .'

The only recipients of the supposed "advantage" of the Chinese in manufacturing, are cut-throat retailers led by Wal-Mart, and the financial institutions financing globalization, while American industries are driven, by Stiglitz' "comparative advantage" economics, to shut down perfectly efficient and productive plant and equipment in the United States. Nor is China receiving any real benefit from the outsourcing of process industries, as it is now discovering, as it is undervaluing its labor and holding hundreds of billions of—steadily depreciating!—dollars in reserves from this process.

Had Hamilton's and Ben Franklin's young United States followed this "economic law" of Smith's East India Company, they would sooner or later have been broken up and reconquered by the synarchy in London. Such "post-industrial society" foolishness today threatens the entire world with a similar destruction.

As Clinton's chairman of the Council of Economic Advisors, Stiglitz prided himself on the creation of millions of new "service sector" jobs. What *EIR* demonstrated then is now apparent: Most of these were either in the fantasy world of the "information technology" bubble, or were in the hamburger-flipping or Wal-Mart category of jobs which can not sustain even a single person, let alone a family. Meanwhile, the productive jobs which once sustained a family have disappeared, or moved overseas. But he refuses to acknowledge that the U.S. economy itself is being destroyed.

In his "How to Reform the Global Financial System," Stiglitz argued that "the problems of exchange rate and interest rate risk, which are central to developing countries, are of little concern to U.S. citizens. In fact, the United States has in some ways benefitted" from the currency turmoil. America faces only two potential risks from globalization, he says: that Third World looting creates conditions that spawn terrorism; and that the world may decide it will no longer finance the U.S. deficit. But—how much error lies in this "but"—"it may be possible for the United States to muddle through this crisis." Worse, Stiglitz wrote in January of 2004 that the global economy looked bright for the coming year, due to the "pick-up in economic activity in Japan and the U.S." Why so confident? The famed economist reports, with just as much reliance on magic as Adam Smith's invisible hand: "Every economic downturn comes to an end, and it is high time for America's economy, which began slumping almost four years ago, to recover."

Refusing to acknowledge the scope of the derivatives bubble, propped up only by the real estate bubble, which in turn is sustained only by near-zero interest rates and unprecedented money printing, Stiglitz fantasizes that "once recovery has set in, the huge borrowing demands of the U.S. and Europe will almost certainly drive up real interest rates globally, posing new problems for the world's emerging markets"—but claims that the U.S. economy will do fine!

Thus Dr. Stiglitz' friendly advice to the Third World and Eastern Europe comes down to this: The U.S. recovery is on the way, so stick with the export-oriented, process industry approach of globalization, stick with the IMF (perhaps slightly reformed), and things will come around.

His "solution" to the debt problems demonstrate the danger. Rather than acknowledging that the debt is unpayable, and the majority of it illegitimate, Stiglitz promotes a return to the 1944 plan of his mentor, John Maynard Keynes: the issuance of Special Drawing Rights (SDRs—essentially fiat dollar-equivalents, backed by the full faith and credit of the IMF) to countries experiencing balance of payments problems. To propose issuing SDRs today, while countries are subject to speculative assaults in the jungle of the floating-exchange-rate regime, is a fantasy based on the bigger lie—that the U.S. economy is invulnerable, too big to fail, and will again become the "importer of last resort."

For those nations that don't survive through SDRs, Stiglitz proposes a variation of the bankruptcy plan put forth by IMF Deputy Director Ann Krueger in 2001, to place countries in bankruptcy receivership, to assure that the debt is paid with as little write-off as possible. His difference with Krueger is that the IMF, as an interested lender, is not the proper body to implement this "protection": for this, he proposes yet another international body, a World Bankruptcy Organization, within the International Court of Justice.

As LaRouche insists, it is the global financial system as a whole which is bankrupt, with over $400 trillion in debts sitting on top of a gross world product of less than one-tenth of that amount. The system itself must be put through bankruptcy proceedings, so that the individual bankrupt nations can preserve their sovereignty, while writing off and restructuring their debt as part of a global reconstruction program.

Stiglitz and Soros

Stiglitz left the Clinton Administration in 1997 to become the World Bank's chief economist, under its President James Wolfensohn. It was while at the Bank that Stiglitz made his famous public attacks on IMF policies in Asia, following the ruinous speculative attacks on Asian currencies led by mega-speculator George Soros. Stiglitz argued correctly that the IMF conditionalities only made things worse.

But this has not prevented Stiglitz from taking money from Soros. When he was asked to leave the Bank in response to his attacks on the IMF, he set up the Initiative for Policy Dialogue, headquartered at Columbia University, to "help developing and transition countries explore policy alternatives" to the IMF. One of its primary funders is the Open Society Institute, run by George Soros—whose role in the destruction of developing nations requires no further "exploring"!