Globalization Failures and Two Proposed Solutions : A Critique to De Soto and Stiglitz

Nelson ALTAMIRANO* ; Mizuki KATAGIRI** ; Juliana Eli WATANABE**

I. Introduction

Globalization is currently under attack in developed and developing countries. The most violent anti-globalization protesters act in developed countries. The property damage at the World Trade Organization (WTO) 2000 meeting in Seattle ran up a bill of $ 20 million. The bills at Quebec City and Genoa in 2001 were $ 70 million and $ 100 million, respectively. The security costs of the 2-day meeting at Sydney's 2002 WTO's mini-ministerial gathering of just 25 trade ministers cost $ 2.5 million, and the one of the IMF-WB 2002 summit in Washington D.C. cost $ 5.5 million (Newsweek, Nov 25, 2002). It is evident why the 2003 world meetings of the WTO, IMF and WB will be at Doha, capital of Qatari. The anti-globalization protesters in developing countries although less violent than their developed counterpart, are more politically influential. This is the case of the massive opposition in Latin America to the Free Trade Agreement of the Americas (FTAA). The new elected presidents in Brazil and Ecuador, Ignacio Lula da Silva and Lucio Gutierrez, got massive electoral support campaigning against the FTAA.

Our objective is to present the empirical evidence that supports anti-globalization and to discuss the institutional reforms presented by Hernando de Soto and Joseph Stiglitz. The first is the director of the Institute of Liberty and Democracy, one of the most influential think-tanks in the world, and the second is the 2001 Nobel laureate of economics. Both based their perspectives on their direct policy making experiences with governments and international organizations. Both are convinced that capitalism and globalization are the only games in town. However, globalization needs fundamental reform. Globalization is neither good nor bad itself. It has the power to do enormous good for those who have embraced globalization under their own terms, at their own pace. "But in much of the world it has not brought comparable benefits, for many, it

* Visiting Professor, ** Graduate Students, Master's Program in Area Studies, University of Tsukuba. Contact addresses : *naltamir @ hotmail.com ; kmizuki @ yahoo.co.jp ; eliwatanabe @ yahoo.co.jp*

seems closer to an unmitigated disaster (Stiglitz, 2002, p. 20)." De Soto argues the necessary reform is in the legal property system of developing countries, and Stiglitz focuses on the governance of international organizations. Both solutions incorporate technical and political parts. We found the political part the weakest.

In the next section we present the empirical evidence that supports the limits and failures of globalization. Then, in the third, we expand the different institutional explanations of De Soto and Stiglitz, along with their respective reforms. Finally, in the fourth section we discuss the relevance of these solutions.

II. Empirical Evidence of Failure

De Soto and Stiglitz share the common perception that globalization failed. Both argue the groups that oppose globalization have real and valid reasons to do it in developing and developed countries. Globalization did not reduce poverty and did not ensure stability. After 10 years of it, there are 100 million more people living in poverty, Africa is still backward continent, and there are fears of financial contagion and crises expansion (Stiglitz, 2002). Both agree that macroeconomic stabilization is not enough. Opening economies and receiving foreign investment are not enough. Policy makers just forgot that rich people live behind fortress-like walls for good reason in the developing world. For these reasons, "outside the West advocates of capitalism are intellectually on retreat. Ascendant just a decade ago, they are now increasingly viewed as apologists for the miseries and injustices that still affect the majority of people (De Soto, 2000, p. 209)."

Both argue that globalization is a private club that at most benefits 25 countries out of 200 in the world. De Soto goes even further to claim there are serious statistics that show globalization during the 1990s was just a transfer of property from poorer to richer countries and that Western private investment in developing nations was nothing short of a massive takeover of their resources by multinationals. Stiglitz adds that Western countries did not open their markets to products that range from textiles to sugar but asked developing countries to do it. Western countries did maintain agriculture subsidies but asked developing countries to stop it. It is clear for him that the West created conditions to ensure a disproportionate share of the benefits of globalization at the expense of the developing world. As a result, the terms of trade benefited the West against the rest. However, Stiglitz recognizes that within Western countries taxpayers pay higher prices because of billions of subsidies. The main beneficiaries of it, as well as globalization, are special commercial and financial interests in the West (Stiglitz, 2002, p. 6).

All these claims against globalization are very strong, but have little evidence within these two books. It was not the intention of both authors to sustain their claims academically. Thus, most readers are left with the doubt whether De Soto and Stiglitz are just pessimistic about globalization or fair evaluators.

Globalization is about trade and its evaluation is about the power of free trade to close the gap between developed and developing countries. This gap measured by income per-capita is huge. In the year 2000 there were 903 million people in the world with an annual income per-capita of $27,680. The same year there were 2.7 billion people with an annual income of $1,970 and 2.4 billion people with just $410.[1] Having identified the economic gap, the question is whether globalization during the 1990s made things better or worse for those 5.1 billion people living in middle and low income countries.

High economic growth rates in middle and low income countries during the 1990s would support the idea things are becoming better, but the data is mixed. In general, economic growth was lower in the 1990s than in the 1980s for high and low income countries. Only middle income countries increased their GDP growth from 3.3% during the 1980s to 3.6% during the 1990s (Table 1). Globalization seems to have boosted the economies of Latin America & Caribbean region. Its GDP growth went up from 1.7% in the 1980s to 3.3% in the 1990s (Table 1). Similar effect seems to apply for the Middle East & North African countries. However, it is East Asia & Pacific and South Asia the regions with the highest GDP growth rates in both decades, above 7% and 5% respectively (Table 1). Industrial growth of 9% per year and services growth of 6-8% per year during the last 20 years sustain the great performance of East Asia & Pacific (Table 1). South Asia follows the same pattern. The big losers of the 1990s are Eastern Europe & Central Asia with negative industrial growth rates, -1.5% and -3.8% respectively.

Therefore, data confirms GDP growth rates during globalization are not better than the 1980s. This indicator itself is alarming if we consider that the 1980s were already years of crisis. After 10 years, globalization has yet to show it can pull up most countries of the world. East Asia & Pacific continues to be the most dynamic region in the world, then Latin America. The big losers are Eastern Europe & Central Asia.[2]

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[1] The World Bank aggregates countries by their level of income. In the year 2000, within the low income group there were 2.5 billion people living in 63 countries with an income of $755 or less per year. In the middle income group there were 2.7 billion people in 93 countries and an annual income between $756 and $9265. The high income group includes 903 million people in 53 countries and annual income higher than $9266 (World Bank, 2002).

[2] Stiglitz presents the cases of China and Russia extensively as instances of success and failure. China is a member of East Asia & Pacific (GDP growth above 7%) and Russia of Eastern Europe & Central Asia (negative GDP growth rate). Thus, both cases illustrate well their respective regions, and the contrast could not be wider.

Table 1 : Economic Growth Rates

	GDP growth		Industry growth		Agriculture growth		Services growth	
	1980-90	1990-00	1980-90	1990-00	1980-90	1990-00	1980-90	1990-00
LOW INCOME	4.5	3.2	5.5	2.7	3.0	2.5	5.5	5.1
MIDDLE INCOME	3.3	3.6	3.6	3.9	3.5	2.0	3.6	3.9
HIGH INCOME	3.3	2.5	2.9	0.7	1.4	0.0	..	..
EAST ASIA & PACIFIC	7.9	7.2	9.3	9.3	4.4	3.1	8.6	6.4
EUROPE & CENTRAL ASIA	..	-1.5	..	-3.8	..	-2.3	..	1.6
LATIN AMERICA & CARIB.	1.7	3.3	1.4	3.3	2.3	2.3	1.9	3.4
MIDDLE EAST & N. AFRICA	2.0	3.0	0.3	0.9	5.2	2.6	2.4	4.5
SOUTH ASIA	5.6	5.6	6.8	6.2	3.2	3.1	6.5	7.1
SUB-SAHARAN AFRICA	1.6	2.5	1.2	1.6	2.3	2.8	2.4	2.6

Source: World Development Indicators 2002, Table 4.1, p. 206, World Bank

Table 2: Structure of Exports

	Merchandise exports		Manufactures		Ores, metals & fuels		Agri. raw mat. & food	
	$ millions	% world exports	% of total exports		% of total exports		% of total exports	
	2000/1990	2000/1990	1990	2000	1990	2000	1990	2000
LOW INCOME	2.2	1.2	48	53	32	24	19	21
MIDDLE INCOME	2.5	1.4	54	63	24	25	19	10
HIGH INCOME	1.7	0.9	79	82	8	6	11	8
EAST ASIA & PACIFIC	3.2		68	83	12	9	17	8
EUROPE & CENTRAL ASIA	2.4		..	53	..	32	..	8
LATIN AMERICA & CARIB.	2.5		34	48	36	27	30	24
MIDDLE EAST & N. AFRICA	1.7		15	14	82	82	4	3
SOUTH ASIA	2.3		71	80	6	2	21	16
SUB-SAHARAN AFRICA	1.4		20	36	35	36	16	21

Source: World Development Indicators 2002, Table 4.5, p. 222, World Bank

During globalization trade became more important for all countries but few sustain more exports with manufactures. World merchandize exports jumped from US$ 3.4 billion in 1990 to US$ 6.4 billion in 2000 (World Bank, 2002, p. 222). Middle income countries increased their exports 2.5 times during these ten years, while low income countries did it 2.2 times and high income countries just 1.7 times (Table 2, column merchandise exports). As a result, high income countries exports went down from 80% of world exports in 1990 to 73% ten years later. The region that increased exports the most is East Asia & Pacific. Its exports are 80% manufactures (Table 2). The regions that

Table 3 : Debt Levels and Foreign Investment

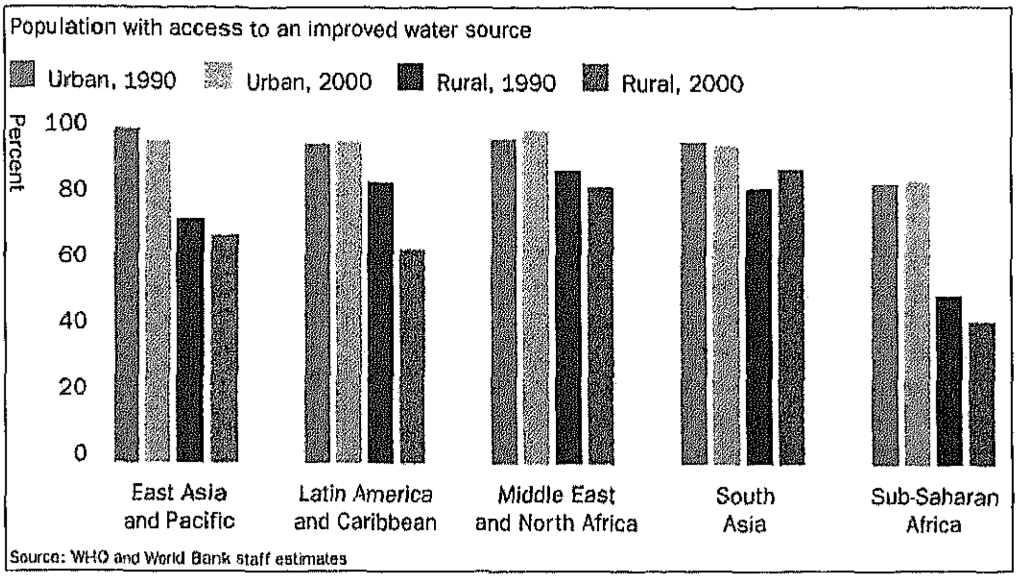
	Trade in goods		Foreign Direct Investment		Total Debt Service		Total Debt Service	
	% of GDP	% of GDP	% of GCF	% of GCF	% of GNI	% of GNI	% of total exports	
	1990	2000	1990	2000	1990	2000	1990	2000
LOW INCOME	26.7	41.3	1.3	3.4	4.8	4.9	23.0	15.7
MIDDLE INCOME	36.6	53.5	2.5	12.2	3.9	6.6	17.2	18.5
HIGH INCOME	32.0	37.1	4.5	14.2	..	..	..	..
EAST ASIA & PACIFIC	48.8	65.6	3.5	8.2	4.4	4.6	15.7	10.8
EUROPE & CENTRAL ASIA	28.7	65.6	0.4	13.6	2.9	8.1	..	18.1
LATIN AMERICA & CARIB.	23.2	37.7	3.8	19.1	4.2	9.5	24.4	38.7
MIDDLE EAST & N. AFRICA	45.4	51.6	2.2	2.7	5.1	4.0	15.0	10.5
SOUTH ASIA	16.5	24.3	0.5	2.3	2.9	2.4	28.7	13.8
SUB-SAHARAN AFRICA	41.2	56.8	..	12.2	..	4.2	12.8	10.2

Source : World Development Indicators 2002, Tables 4.17, 5.2 and 6.1, pp. 270, 286, and 334, World Bank
Notes : GDP stands for Gross Domestic Product, GCF for Gross Capital Formation and GNI for Gross National Income

increased exports the less are Sub-Saharan Africa and Middle East & North Africa with just 1.4 and 1.7 respectively. For the case of Middle East & North Africa, 80% of its exports are oil (Table 2). The exports of Latin America & Caribbean, Eastern Europe & Central Asia, and South Asia increased 2.5, 2.4 and 2.3 times respectively. While manufacture exports in South Asia went up from 71% to 80% of total exports in 10 years, Latin America & Caribbean's did it from 34% to 48% (Table 2). We should notice that the two regions where manufacture exports are 80% of total exports are the ones with the highest GDP growth rates.

Globalization also relates to the effects of increasing foreign direct investment in developing countries and its potential to solve external debt problems. Foreign direct investment became more significant for middle and high income countries but not so much for low income countries (Table 3). Furthermore, it is Latin America & Caribbean and Eastern Europe & Central Asia that became highly dependent on foreign direct investment. Their respective ratios went up from 3.8% and 0.4% in 1990 to 19.1% and 13. 6% in 2000. These ratios went up less significantly in the other regions. Along with more foreign direct investment, Latin America & Caribbean and Eastern Europe & Central Asia increased their total debt service ratio. In the first case, the debt percentage of GNI went up from 4.2% in 1990 to 9.5% in 2000. In the second case, it went from 2.9% to 8.1% in 1990 and 2000 respectively (Table 3). These are the only regions in the World that increased their annual debt service as percentage of exports. Latin America & Caribbean was dedicating 24% of annual exports to pay its debt service in 1990 and 39% in 2000.

Graph1 : Urban and Rural Access to Water in 1990 and 2000



Source : World Development Indicators 2002, p. 13, World Bank

South Asia reduced this ratio from 29% to 14% in the same years, and East Asia & Pacific from 16% to 11% (Table 3).

All these economic indicators support the idea that globalization is good for the regions that had already developed manufactures, and were already export oriented during the 1980s. Contrary to the regions thai benefit less from globalizatiou, the winners are the regions that increased less the weight of foreign direct investment relatively to national capital. The capacity of generating capital is a topic De Soto develops extensively. These economies are also the ones that are growing and reducing their debt service. This sound and clever combination is related to economic management, the topic Stiglitz develop in his book. Globalization based on market oriented policies seems to help more medium income countries than low income countries. Thus, globalization is not working well to close the $27,000-income gap between rich and low income countries. In this sense, De Soto's and Stiglitz's critics to globalization fairly reflect reality.

Both authors sustain foreign direct investment, privatization and, exports are not enough. There are social conditions that need improvement and markets cannot solve them. In order to evaluate the non-economic side of globalization we present basic health indicators. Graph 1 shows urban and rural access to safe water per region in 1990 and 2000. While there is no improvement at all in urban areas, there is clear deterioration in rural areas in all regions but South Asia. Infant mortality rate was reduced in all regions

Table 4 : Basic Health Condition

	Infant mortality rate per 1000 live births		Physicians and pop. per 1000 people		Hospital beds and pop. per 1000 people	
	1980	2000	1980	2000	1980	2000
LOW INCOME	112	76	0.5	0.5	1.7	1.3
MIDDLE INCOME	55	31	1.2	1.7	3.4	3.4
HIGH INCOME	12	6	..	2.9	..	7.2
EAST ASIA & PACIFIC	56	35	0.8	1.3	2	2.5
EUROPE & CENTRAL ASIA	41	20	3.0	3.1	10.4	8.8
LATIN AMERICA & CARIB.	61	29	..	1.6	..	2.2
MIDDLE EAST & N. AFRICA	98	43	..	1.0	..	1.7
SOUTH ASIA	119	73	0.3	0.4	0.7	0.7
SUB-SAHARAN AFRICA	116	91	..	0.1	..	1.1

Source : World Development Indicators 2002, Tables 2.15, 2.16 and 2.20, pp. 104, and 124, World Bank

from 1980 to 2000, but high income countries reduced most and then the gap between rich and low income countries increased. The infant mortality rate was 9 times higher in low than high income countries in 1980. This ratio went up to 13 times in 2000 (Table 4). The number of hospital beds per 1000 people went down from 1.7 to 1.3 in low income countries in the same 20-year period, and remained at 3.4 for middle income countries (Table 4). It is interesting to notice in Table 4, that former communist countries had 10. 4 hospital beds in 1980 and only 8.8 in 2000. However, even with this big drop in Eastern Europe, these countries still have more beds than the 7.2 beds in high income countries in 2000. Eastern Europe & Central Asia countries have more beds even after the health expenditure per capita in high income countries was \$2,773 against just \$21 in low income countries (Table 5). The irony of capitalism is that in terms of basic health infrastructure it cannot compete even with the deteriorated remnants of socialism.

These indicators support De Soto's and Stiglitz's idea that economic reforms are not enough. It is unlikely that market solutions could close the health gap between low and high income countries. Furthermore, the privatization of health programs and reduction of public health expenditure in developing countries do not make sense with their own reality. It is ironic that while international organizations pressed for privatization of health systems in developing countries, the public health expenditure remained higher than the private's in high income countries (Table 5). Thus, there are double standards not only for agricultural subsidies and trade protectionism, but also for health policies.

In general, the data presented supports more the critics of Stiglitz than De Soto's. The economic benefits of globalization are limited, but goes to more countries than the De

Table 5 : Health Expenditure Indicators

	Per capita	Public	Private	Total
	$	% of GDP	% of GDP	% of GDP
	1995-99	1995-99	1995-99	1995-99
LOW INCOME	21	0.9	2.7	3.8
MIDDLE INCOME	119	2.9	2.9	5.7
HIGH INCOME	2733	6.0	4.0	10.1
EAST ASIA & PACIFIC	51	1.8	2.7	4.5
EUROPE & CENTRAL ASIA	126	4.4	1.4	5.2
LATIN AMERICA & CARIB.	264	2.8	3.7	6.5
MIDDLE EAST & N. AFRICA	125	2.9	2.2	5.1
SOUTH ASIA	19	0.9	3.8	5.1
SUB-SAHARAN AFRICA	41	2.0	2.8	4.9

Source : World Development Indicators 2002, Tables 2.15, p. 104, World Bank

Sotos' 25 countries. The economic benefits go also to East Asia & Pacific, South Asia and to a lower extent, to Latin America & Caribbean. Exports are not enough. Economic management matters as the debt data illustrated. Few countries are in the right path of economic growth, more exports and less debt service. Certainly Latin America and Eastern Europe are not on it. Finally, economics and economic management are not enough. East Asia & Pacific and South Asia have economics and economic management right, but their health indicators are very low. Social inequality and poverty conditions need direct social policies. In summary, De Soto and Stiglitz do not exaggerate the limits and failures of globalization.

How these authors explain the failures of globalization? Both assume an institutional perspective, but focus on different institutions. De Soto focuses on the legal system within developing countries, and Stiglitz on the rules of globalization. Both develop arguments about how these rules work, who set these rules, and who benefit from them. At the end, both find their respective solutions. These ideas are developed in the next section.

III. Explaining the Failure of Globalization and Finding Solutions

a) The National Property Legal System Perspective

De Soto argues the current process of failed globalization is not different from other four attempts in the past. Therefore, the causes are rooted in the economic and political system of developing countries. The failure is not the failure of globalization itself but the failure of creating capital. Capital is the lifeblood of capitalism, and the real problem is that developing countries do not find the way to create capital. Globalization is a 25 -member private club today because they are the only ones that produce capital in sufficient quantity to benefit fully from the division of labor in expanded global markets (De Soto, 2000, pp. 208-209).

What is capital? Is it a car, a house or a million dollar? De Soto, following Marx, sustains that a car, a house and a million dollar per se are not capital. These are just physical assets with some monetary value and the potential to become capital. Capital, by definition, must to create more value, must to reproduce itself. How a car, a house or a million dollar could create more value, i.e., another car or a house or more money? If the owner of the car makes it to work as a taxi, the car becomes capital. If the 1 million dollar is put on a bank at some positive interest rate, it becomes capital. Finally, if the house is used as collateral to borrow money, to buy a car, or another house, it also becomes capital. Thus, capital is just the abstract form of physical assets that makes these assets transferable and fungible (De Soto, 2000, p. 211).

De Soto sustains that capital, the abstract form of physical assets, is the lifeblood of capitalism. Economic transactions like buying and selling or borrowing and lending are much more dynamic in countries where assets are capital than in countries where assets are just assets. There is a system where the abstract notion of assets is registered. In developed countries, the existence of financial collateral is based on this system and the full potential of capital emerges when a house-owner can go to a car leadership to buy a car with almost no cash, or a car-owner can get a DVD player with no cash at all. The only requirement is to fill up credit forms based on income, credit history and most important, asset ownership. The seller will not ask to see the house or the car. He will not even ask for proofs of ownership. If the assets abstract information of the buyer is in the "system" the transaction will be completed. Once the "system" is in place, capital becomes the foundation of progress. Thus, the secret of capitalism lies in the property legal system (De Soto, 2000, p. 66).

The tragedy of people in developing countries during the current process of globalization is that they cannot access to expanded markets because they do not have access to a legal property rights system that makes their assets to work as capital. It is well known that self-employment have become the norm in all third world countries during the 1980s and 1990s. But, it is less known that the poor have already taken control of vast quantities of real state and production. For instance, in Peru 53% of city dwellers and 81% of rural houses are not legal; in Egypt the respective numbers are 92% and 83%. The problem is all these houses are extralegal. Most people's resources are commercially and financially invisible. Nobody knows who owns what or where, who is accountable for losses and fraud, how to enforce payments or goods delivery. Thus the houses and other assets are "dead capital." The value of dead capital (housing) in all developing countries is at least US $ 9.3 trillion. This amount is 20 times the foreign direct investment in developing countries during the last 10 years and 46 times the World Bank loans for these countries in the last 30 years (De Soto, 2000, p. 35). Thus, the tragedy is that this US $ 9. 3 trillion can not be used as capital during the current globalization process.

The poor are not the problem ; they are the solution (De Soto, 2000, p. 37). Their economic activities and assets remain extralegal because the legal system breaks them. It is extremely difficult for these people to acquire legal housing, enter formal business or find a legal job (De Soto, 2000, p. 18). It is so difficult that for instance in Peru it takes 289 days and US $ 1231 to legalize a small garment shop, and from 13 to 25 years to qualify for a state housing finance program ; in Egypt it takes from 5 to 13 years to legalize a lot on state-owned desert land. The author claims these instances reflect the real situation in most developing countries. Therefore, the real problem is not in the poor. The problem resides in the government side, the legal system and the policies that support the continuation of this massive extralegal assets and dead capital. "The only real choice for the governments of these nations is whether they are going to integrate those resources into an orderly and coherent legal framework or continue to live in anarchy (De Soto, 2000, p. 30)."

The solution is to create a legal property system that in essence has to do two things. First, it has to reduce the costs of knowing the economic qualities of assets and represent them in a way that our senses can pick up quickly. Second, it has to facilitate the capacity to agree on how to use assets to create further production and increase the division of labor (De Soto, 2000, p. 63). The task, however, is not purely technical. It is a real social and political challenge. The elite in developing countries lives under the protection of the legal system, while most of the people lives outside of it. In De Soto's figurative words, the minority lives within the bell jar of capitalism, and the solution implies to reform the current legal system in order to incorporate most of the people inside the bell jar (De Soto, 2000, p. 158).

The first step, De Soto claims, is to know how and why existing extralegal social arrangements work. People outside the bell jar use their own informal set of rules to protect and mobilize their assets. These rules combine customs brought from their own places of origin, laws borrowed from the official legal system and ad hoc improvisations. These extralegal rules apply only to small and local communities. Therefore, there are many independent local extralegal systems within a country, and each sustains a vibrant but undercapitalized sector. The first step is then to understand these scattered representations of property (De Soto, 2000, pp. 181–187).

The next step, the author continues, is to identify the principles and rules that sustain the extralegal social contracts (De Soto, 2000, pp. 187–205). By comparing extralegal to legal codes, government leaders can see how both have to be adjusted to fit each other and then built a common law. The success of this common law resides in its legitimacy. A legitimacy based on the people's law.

What the author is in fact proposing is a property revolution, and as any radical reform, it needs political support. A minority will intuit that reforms will perturb their little niches, and they will resist "silently and insidiously (De Soto, 2000, p. 188)" Within this group there are lawyers, technicians, bureaucrats and other governmental related officials that benefit from the extralegal system. Thus a political will is needed to fight this opposition. In De Soto's proposal, the political leadership requires (1) take the perspective of the poor ; (2) convince the elite that the reform will enlarge their own pockets, and (3) deal with the legal and technical bureaucracies that guard the current bell jar. For him, the property revolution can be done only from the top to the bottom (De Soto, 2000, p. 189).

b) The International Rules of Globalization Perspective

Stiglitz main hypothesis is that globalization itself is not the problem but the way it has been managed. The managers and the ones that set the rules of the game are the IMF, WB and WTO. These organizations are responsible for the failure of globalization. That is why protests against globalization have targeted the world summits of these organizations and why this international bureaucracy is under attack everywhere (Stiglitz, 2002, p. 9). However, it is the IMF the most influential of all and it is the one that is most analyzed by the author.

It is well known the market orientation of the neo-liberal policies promoted by the IMF around the world since the early 1980s. The IMF is the great defender of liberalization, capitalization, openness and non-governmental role in economic activities. This market orientation, however, is exactly the opposite of the original IMF's mission (Stiglitz, 2002, p. 15). The IMF was created after the big depression of the 1930s to support governments to ensure full employment. Markets are not perfect and instances of market failures are business cycles, regional economic crises, hyperinflation and involuntary unemployment. Thus, the IMF was created to support governments reinforce their domestic aggregate demand in order to solve the problems that markets alone cannot solve. Today, the IMF just betrays its own original mission and the consequences of it are terrible. Crises in the last 25 years are more frequent and deeper than before; IMF policies have not only failed in restoring full employment but have originated crisis in some countries and made matters worse in others (Stiglitz, 2002, 18). Stiglitz general evaluation is that market driven policies by the IMF have failed everywhere. The successful cases are from the countries that rejected IMF programs and followed their own policies (2002, 181).

In a world where capitalism is the only game in town it is necessary to recognize that there is no one single capitalist model. The U.S. is very different from Sweden or Japan. However, the IMF understands there is a single market model and a single package of economic reforms. There is the general agreement among economists that hyperinflation is bad and that market competition is good. However, there is no agreement about how low prices should be, how fast privatization and liberalization should be, and whether or not capital market liberalization should be pursued at all (Siglitz, 2002, p. 218). The IMF simply ignores the debate. It sees the world not through scientific lenses but market ideological lenses and, presents its standardized market reforms as doctrines to be applied every where, at any time (Stiglitz 2002, p. 162). The IMF's single package is known as shock therapy.

For Stiglitz there are two ways of economic reform, the IMF shock therapy and the gradualist reform. Russia reflects the perverse effects of shock reforms, and Stiglitz dedicates chapters 5 and 6 to it. The IMF pressed for fast privatization to create a large group with strong vested interests in capitalism. Effectively a strong group was created, a mafia that became rich overnight. This group took control of local banks with the right to emit their own currency, got the former public firms at bargain prices to sell them by parts, and their Swiss account banks went up $22.6 billion the next day the IMF-WB released its rescue package in January 1999. The rescue was exactly by $22.6 billion. At the same time Russia's GDP felt 54% from 1990 to 1999, unemployment peaked to 7.7% of total population in 1998 and 40% of people had an income less than $4 per day. This tragedy occurred because the IMF wanted to create a market economy without the institutions and institutions without the institutional infrastructure (Stiglitz, 2002, p. 144). Stiglitz claims developed countries took 150 years to develop those institutions right, and to developed it today there is no short cuts (Stiglitz, 2002, p. 139).

The case of China's transition to capitalism reflects the benefits of the gradualist approach. China started its gradual reform in 1980, and its economic growth rates had been 10% per year during the 1990s. Agrarian reform, privatization of public firms, joint ventures with foreign multinationals, and liberalization were done step-by-step to ensure displaced resources are redeployed to more efficient uses, not left to fruitless unemployment. Job creation was in tandem with restructuring because Chinese leaders understood job creation was the key to maintain social stability. Thus, in its quest for both stability and growth, China created competition, new enterprises and jobs before privatizing and restructuring existing enterprises (Stiglitz, 2002, p. 184). To do this, China did not follow the IMF. They followed their own way after consulting independent experts on the dynamics of transition from distorted to market prices (Stiglitz, 2002, p. 182).

At the root of the systematic failure of IMF economic reforms are two problems. First, the IMF's single common package of rapid reforms destroys jobs without placing in advance safety nets for the unemployed, or the necessary institutional basis for markets to work. The result is total job destruction. Thus, the first problem is one of sequencing and pace of reform (Stiglitz, 2002, p. 248).

The second problem is about governance. The activities of the IMF are in developing countries, but the heads of it as well as of the WB and WTO, are chosen behind closed doors by the governments of developed countries. Furthermore, these high bureaucrats come from banks or big firms in these countries. In addition, the representatives of developing countries --finance ministers and central bank presidents-- also come from the financial sector of their respective countries. Thus, it is not only that developed countries control the agenda of international organizations, but also, that the only voices expressed in these organizations are the ones of commercial and financial interests in developed and developing countries (Stiglitz, 2002, p. 20). Thus, for the peasants, small business and self-employed people in developing countries, the current system run by the IMF is "one of taxation without representation (Stiglitz, 2002, p. 20)."

The Stiglitz's solution is about changing governance. International organizations must be accountable to the majority of people in the developed and developing world. Taxpayers in developed countries must know how their contributions are used by international organizations. At the same token, taxpayers in developing countries must know the specific loan conditions signed by their own governments and the IMF because they are the real payers of foreign debt (Stiglitz, 2002, p. 227).

How this two-tier change in governance could occur? Stiglitz stresses developed countries have no incentives to change globalization. "Thus, the developing countries must assume responsibility for their well-being themselves. They can manage their budgets so that they live within their means, meager though that might be, and eliminate the protectionist barriers [that force consumers pay higher prices and give huge profits to few] . They can put in place strong regulations to protect themselves from speculators for the outside or corporate misbehavior from the inside. Most important, developing countries need effective governments, with strong and independent judiciaries, democratic accountability, openness and transparency and freedom from the corruption that has stifled the effectiveness of the public sector and the growth of the private (Stiglitz, 2002, p. 251)."

IV. How Realistic are These Two Solutions?

De Soto and Stiglitz each correctly recognize the limits and failures of the current globalization process under capitalism hegemony. In Section II we showed that the economic and social living conditions gaps between high and low-medium countries are huge and increasing for low income countries. The gaps are so wide that globalization based only on economic market reforms cannot significantly reduce it.

Both authors take the lenses of institutionalism and, although focusing in different institutions, found solutions with technical and political components. In the case of De Soto, the technical solution is to develop a national legal property system based on the people's law. This system would convert into capital the $ 9.3 trillion of dead capital in developing countries. In the case of Stiglitz, the economic technical solution is to apply gradualist policies that create the institutions and institutional infrastructure markets need in order to function properly. The management economic solution for the IMF is to return to its original mission of ensuring full employment through aggregate demand policies. These technical solutions have defenders and detractors within the self-employed, informal-formal literatures and, market and institutional economics respectively.[3]

However, these authors are more interested in the political component of the solution than the technical part. Both affirm the real challenge does not reside in the technical solution itself but in the political will or political conditions necessary to apply the technical solutions. For De Soto, there are vested interests in the state bureaucracy and elite that will appose the legal property reform. Thus, the elite must be convinced by some political leadership that it is in its own interests to make the legal reform. In the case of Stiglitz the international bureaucracy that represents financial interests and developed countries will not make any change. Developing countries by themselves have to do it. These points in both authors are the weakest because their political actors (some political leadership and developing countries themselves) are not connected to any theory of social

[3] A good introduction to this discussion appears in C.Woodruff (2001), "Review of de Soto's The Mystery of Capital," Journal of Economic Literature, Vol. XXXIX, pp. 1215-1223.

movements or revolutions.

It is not clear why De Soto claims that the poor are the solution to economic problems but not to political problems. The political solution for him must come from the top to the bottom. It is not clear either, how developing countries will get effective governments, independent judiciaries or transparent democracies in the case of Stiglitz's solution. He defends a bottom-up approach when affirms developing countries themselves have to change globalization. But there is no word about whether this also applies to domestic political problems. He mentions there is a need to bring up into governments voices other than just financial defenders. The industrialists or non-traditional exporters or manufacturer exporters have indeed different interests than bankers, and would like to make the technical reforms Stiglitz suggests. The big uncertainty is if they would like to accept the political reforms of democratic transparency, independent judiciary and effective accountability. It seems a top-to-bottom approach in the case of Stiglitz would not be enough to produce a complete change in governance. The cases of Chile under Pinochet or the current process in China show that economic reforms and democratic reforms do not need to occur at the same time and same pace.

De Soto and Stiglitz are not really consistent about the direction of political change required for their technical solutions. Their technical solutions should not be accepted ideologically and may be good to think them as complementary solutions. Anti-globalization protests around the world are forcing changes. There is no doubt about this. The question is up to what extent the changes will include most of the people inside De Soto's bell jar and create Stiglitz's humanized globalization. The level of reforms will vary from country to country depending on the social pressure from below and the cleverness of the top. The political and economical elites that really understand De Soto's and Stiglitz's messages will manage the change from the top, and benefit from it. The elites that do not want to recognize the problem will see changes imposed from the bottom, and benefit nothing. There will be also intermediate results.

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