

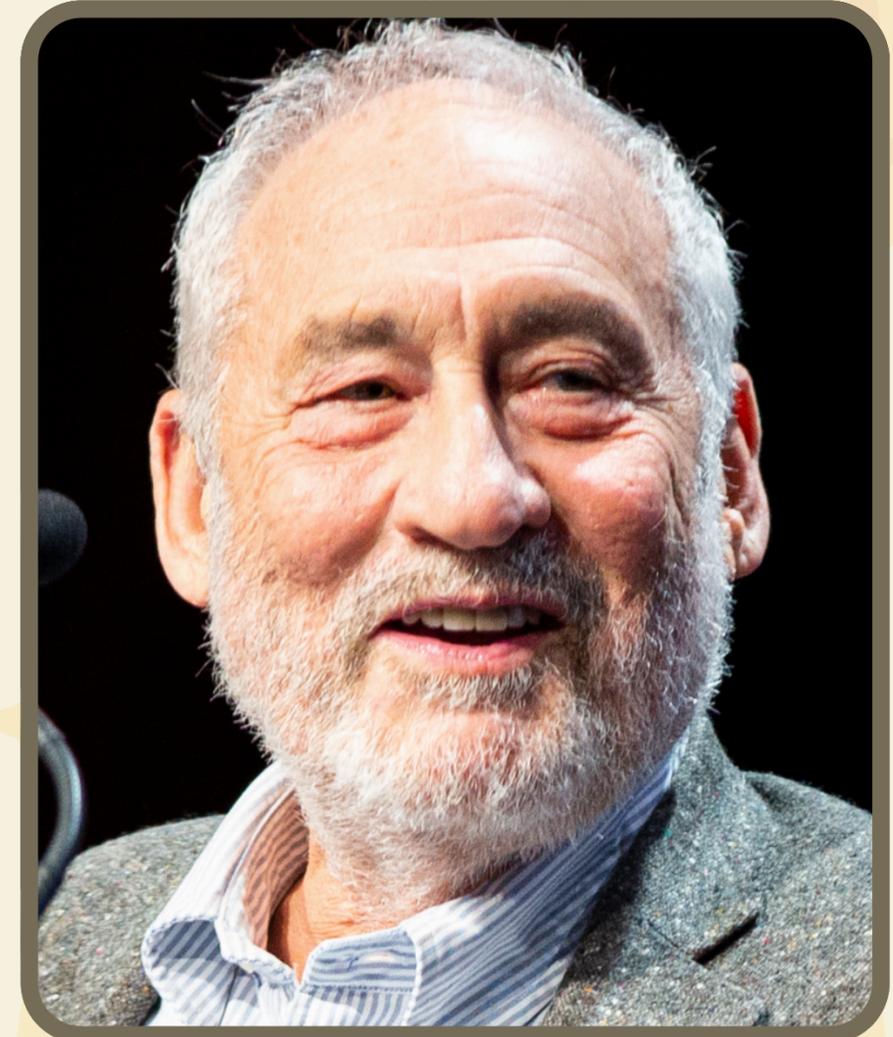
Great Economic Thinkers

Joseph Stiglitz: Have the World Bank and the International Monetary Fund increased international inequality?

Presented By: **Raphael Degois caligaris**

About Joseph Stiglitz

- Nobel Prize winner and former World Bank Chief Economist.
- Critiques global institutions based on his high-level internal experience.
- Harmful Austerity: Rigid policies that often worsened poverty instead of fixing it.
- Increased Inequality: Forced privatizations and trade liberalization widened the global gap.
- Pro-North Bias: Institutions prioritizing wealthy creditors over developing nations.





- Created to ensure monetary stability and prevent a repeat of the 1930s financial chaos.
- Provides emergency funds to countries facing balance of payment difficulties.
- Acts to prevent currency devaluations and recessions from destabilizing the global economy.



- Originally founded to rebuild nations devastated by World War II.
- Focuses on sustainable growth and poverty reduction in developing nations.
- Finances critical projects like roads, schools, health systems, and energy.

The "Washington Consensus"

Origin

- Created by John Williamson in 1989
- Represents the shared views of the IMF, World Bank, and US Treasury.
- Originally designed as a survival guide for Latin American debt crises.

Purpose

- Aimed to restore fiscal balance and fight hyperinflation.
- Designed to attract foreign investment by removing state controls.
- Used as a standardized toolkit to modernize struggling economies.

Based on 3 pillars :

- Fiscal Discipline: States must cut spending on public services to eliminate budget deficits.
- Trade Liberalization: Removing customs barriers and allowing free capital flow to force local companies to compete globally.
- Privatization: Selling state-owned enterprises to private investors under the belief that the state is an inefficient manager.



The technical mechanisms of inequality production



1. Fiscal Austerity

- The Mechanism: The IMF demands immediate public spending cuts as a condition for loans.
- The Impact: Slashing health and education budgets destroys social mobility for future generations.
- The Indonesia Example: Cutting food and fuel subsidies caused poverty to jump from 11% to 40% in one year.

2. Trade Liberalization

- The Mechanism: Developing nations are forced to remove trade barriers while rich nations keep their agricultural subsidies.
- The Impact: This creates a systemic hypocrisy where the South is forced to be "more capitalist" than the North.
- The Jamaica Example: Local dairy farmers went bankrupt after the market was flooded with subsidized European powdered milk.

3. Privatization

- The Mechanism: Under World Bank pressure, the city of Cochabamba privatized its water system to a foreign consortium to improve efficiency.
- The Impact: The private company hiked water prices immediately to ensure profits, making a basic necessity unaffordable for the poor.
- The Result: Mass protests and "Water Wars" broke out, forcing the government to cancel the contract after the economy was further destabilized.



The Criticism of Stiglitz

The "One-size-fits-all" Failure

- **Definiton** : An approach where a single, standardized economic model is applied to all developing countries regardless of their unique history, culture, or economic stage.

Russia: The "Shock Therapy" Disaster

- Instant Privatization: After the USSR fell, the IMF pushed for a massive privatization of state assets.
- This legal vacuum allowed a few men to seize national wealth, leading to extreme poverty and a drop in life expectancy.

Ethiopia: Ideology vs. Success

- In 1997, Ethiopia had good growth and no inflation.
- The IMF demanded rigid budget cuts and banking liberalization.
- The IMF suspended aid because the government refused to follow their "recipe" to the letter.
- Stiglitz defended Ethiopia, arguing they needed to invest in schools rather than following a fiscal discipline.

Information Asymmetry

The Nobel Concept

Stiglitz received the Nobel Prize in 2001 for proving that in the real world, actors do not have the same information at the same time.

The Theory

An international bank has far more knowledge about financial flows than a small farmer or a developing government

The Flaw in IMF Logic

The IMF relies on the theory of "perfect markets," which assumes everyone knows everything.

Need for Regulation

Stiglitz demonstrates that when information is unequal, markets cannot be efficient on their own and require state rules to protect the weak.

Systemic Bias

By ignoring asymmetries, the IMF imposes rules that systematically favor those with capital and information.

Banking Sector Failure

When poor countries opened their banks to global competition, foreign banks lent only to the wealthy, leaving local small businesses and peasants without credit.

Crisis Management

During a crisis, informed international investors withdraw their money first.

The Double Blow

The IMF imposes massive interest rate hikes that ruin local traders, while IMF loans are used to repay the Northern creditors.

Conclusion

- **Ideology over Reality:** IMF and World Bank replaced their original stability mandate with "Market Fundamentalism," prioritizing neoliberal dogma over the actual needs of the poor.
- **The "One-Size-Fits-All" Failure:** By applying standardized, "ready-to-wear" policies, they ignored local contexts leading to economic disasters.
- **Sacrificing Human Capital:** Rigid austerity measures forced countries to cut health and education budgets.
- **Market Hypocrisy:** Poor nations were forced to open their markets, creating an asymmetrical system that transferred wealth from local farmers to Northern multinationals.
- **Information Asymmetry:** By ignoring the fact that wealthy creditors have more information than poor borrowers, it has permit to turn global regulators into vectors of inequality.

References

- Dawson, T. C. (2002). Stiglitz, the IMF and Globalization – Discours du Directeur des Relations Extérieures du FMI. <https://www.imf.org/en/news/articles/2015/09/28/04/53/sp061302>
- Ferri, G. (2003). Joseph E. Stiglitz (2002) Globalization and Its Discontents [Review of the book Globalization and Its Discontents, by J. E. Stiglitz]. Economic Notes, 32(1). https://www.researchgate.net/publication/4755241_Joseph_E_Stiglitz_2002_Globalization_and_Its_Discontents
- Irwin, D. A., & Ward, O. (2021, September 8). What is the "Washington Consensus"? Peterson Institute for International Economics (PIIE). <https://www.piie.com/blogs/realtime-economics/2021/what-washington-consensus>
- Stiglitz, J. E. (2002). Globalization and its discontents. W. W. Norton & Company. <http://digamo.free.fr/stig2002.pdf>