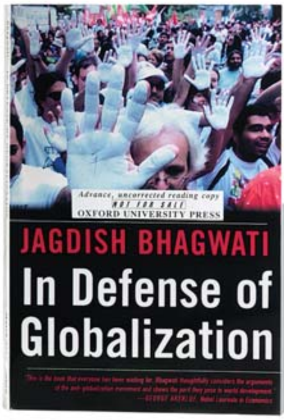
BOOK **REVIEWS**



Globalization for One-Stop Shoppers

Jagdish Bhagwati

In Defense of Globalization

Oxford University Press, New York, 2004, 304 pp., $28 (cloth).

THE NUMBER of books on dieting and weight loss still outnumber those on globalization, but there is no shortage of the latter. So why bother with yet another book on globalization?

Jagdish Bhagwati's latest book, *In Defense of Globalization*, merits attention for several reasons. First, the author is one of the world's most distinguished and creative international economists. Unlike many other globalization authors, Bhagwati is not an ideologue but revels in sifting through arguments and ideas. He accentuates the positive in this spirited defense of globalization, but he is more of an intelligent teacher than an advocate or cheerleader. As a teacher, he is openminded in his willingness to ponder and consider both sides of an issue and evaluate which of many different positions are most consistent with logic and evidence.

Second, he is among the few economists who have stood up and become part of the public debate. He is a prolific writer in major newspapers and magazines. He has engaged the antiglobalization protesters in Seattle and elsewhere. He has debated Ralph Nader, Naomi Klein, and other opponents of the current system. As a result, he knows the arguments and concerns on both sides of the globalization divide more than anyone. No one is in a better position to respond to the criticisms and fears of the antiglobalists.

Finally, while other books on globalization tend to focus on one aspect of the issue, be it global trade or capital flows or labor migration, Bhagwati deals with all of these aspects. No other book on globalization covers as wide a range of issues as Bhagwati's. Indeed, his book is the best one-stop shopping for readers seeking a panoramic view of all the controversies that make up the globalization debate.

The core of the book is devoted to what Bhagwati calls the "human face" of globalization. He addresses globalization and poverty, child labor, women, democracy, culture, labor standards, the environment, and corporations. With subtlety and sophistication, he considers whether globalization has been beneficial or harmful, a boon or a menace. In each case, Bhagwati brings in new perspectives and refreshing insights. Perhaps as a result of his frequent debates with antiglobalization activists, he particularly goes after what he calls "gotcha" examples—the story or the anecdote that sounds good and has some superficial plausibility (such as the idea of a "race to the bottom") but, upon reflection, is found to be largely devoid of substance.

On NGOs, Bhagwati argues that "halos should not be shields" against public scrutiny.

In defending globalization, however, Bhagwati does not fall prey to the "best of all possible worlds" fallacy. While noting that the income gains that accompany trade liberalization tend to reduce child labor, he condemns cross-country trade in children and argues for measures to stop that horrible practice. Though supportive of the World Trade Organization (WTO), Bhagwati objects to the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. He was one of the first to make a sharp distinction between the free movement of goods and the free movement of (portfolio) capital, noting the benefits of the former and the pitfalls of the latter. (He entitles one chapter "The Perils of Gung-ho International Financial Capitalism.")

Bhagwati concludes by examining governance issues. He does not lay out a blueprint for the WTO, the World Bank, and the IMF for the coming decades. Rather, in an analytical way, he sets out the elements of appropriate governance, such as the possible use of sanctions to promote labor and environmental standards, the question of the speed of policy reform, and the design of adjustment assistance.

Perhaps the best reason to pick up this book is Bhagwati's inimitable writing style. The book is laced with amusing vignettes and turns of phrase. In mentioning the lack of openness and accountability of nongovernmental organizations, Bhagwati argues that "halos should not be shields" against public scrutiny. Writing about the tendency to blame corporations for both bypassing countries and harming those not bypassed, he recalls the movie *Manhattan* when "Woody Allen's character talks about the hotel where the food was dreadful and there was not enough of it either!"

Regardless of whether one agrees or disagrees with Bhagwati's conclusions, all readers can profit from his provocative insights and lively style.

Douglas A. Irwin
Professor of Economics
Dartmouth College

A Compact but Unconvincing Case

Lex Rieffel

Restructuring Sovereign Debt
The Case for Ad Hoc Machinery
Brookings Institution Press, Washington, D.C., 2003, 368 pp., $39.95 (cloth).

ONE INEVITABLY picks up a book with certain expectations, as I did when I began this one. Both the title and dust jacket raise the prospect of an alternative to the Sovereign Debt Restructuring Mechanism (SDRM) proposal made by IMF management and actively debated following its launch in November 2001. Although the author provides a good history of sovereign debt crises over the last four decades and the international community's efforts to deal with them, the promise remains unfulfilled.

Rieffel's argument that "broadly satisfactory workouts . . . can be achieved with a package of incremental improvements in the existing ad hoc machinery" is not convincingly made either in the portrayal of this history or in what is proposed in only three pages in the last chapter. His "tools-based approach" suggests nothing more than greater use of bilateral balance of payments loans, rescheduling loans from multilateral development banks, better collaboration between the public and private sectors, and greater attention to crisis prevention. Some of his proposal is worthwhile, but it hardly constitutes a new approach or a "pragmatic alternative" to the villain of the piece: the IMF's proposed SDRM.

That said, this wealth of information on the international financial system could have been put together only by someone with Rieffel's long experience within that system—including at the U.S. Treasury, the IMF, and the Institute of International Finance (IIF). But it is not clear if this is a history, a text book, a position paper, or something else. It is some of each, which will frustrate the busy reader searching for the promise in the title. For those with more time, however, the book is useful as a record of a good deal of carefully researched, but often forgotten, history.

Rieffel's views will also stimulate readers to rethink their positions. He advises those familiar with the international financial system to skip Chapters 2–4, but these chapters offer insight into his views, which are worth knowing because this is not an uncolored history. Some examples:

- Rieffel credits the G-7 countries with directing the activities of the international financial institutions and leading all initiatives at reform of the global financial system. His view, that these countries have "accepted" this responsibility as if it had been offered to them, implies that this is all right and proper; but the governance issue this view implies is never raised. Moreover, this portrayal of the role of the G-7 fails to recognize that many outside that small band have contributed substantially to the improvements in the system.
- There is also the view that "a discretionary approach at the international level . . . reinforces respect for contractual obligations," which seems a warm-up for the charge that a statutory mechanism, such as the SDRM, has the opposite effect.
- Regarding the motivations of the players in the crisis context, Rieffel believes that "multilateral creditors are primarily concerned about preserving their preferred creditor status."

These and similar views come through frequently in what is otherwise a comprehensive and valuable portrayal of the history of dealing with debt in the international financial system. That history, on the Paris Club, the North/South dialogue of the 1970s, and the debt crisis—and ultimately the Brady Plan—in the 1980s, is worth remembering as the world now debates what more is needed to deal with future debt crises.

A major flaw in Rieffel's argument in support of an ad hoc approach to managing debt crises and in portraying history as supportive of such an approach is the lack of attention to the costs of the crises, which stem in part from the absence of tools to better anticipate them and to deal with them more effectively. The author recognizes that "the social costs of the decade-long [1980s] crises were high" and that "financial crises in emerging market economies impose terrible costs on innocent citizens." But the assessment of history and the analysis of the issue are almost totally creditor-centric. In assessing the debt crises of the 1980s and the Brady Plan as its solution, Rieffel says: "The belief inherent in this study is that it was necessary to 'bump down the stairs' before beginning broad-based debt reduction." The balance sheets of international banks were indeed fragile in the early 1980s, and it was believed that they had to be nurtured back to health before losses against sovereign claims could be taken. But Rieffel expresses little concern and offers no analysis of the counterpart of this strategy in the debtor countries and the relation between that strategy and the cost to innocent citizens over that lost decade in Latin America. It was those innocent citizens who got bumped down the stairs.

This attitude carries through to the discussion of the current situation in Argentina. Rieffel argues that "presuming a successful workout with Argentina in the second half of 2003, the global financial community will have a template for future workouts that require restructuring of bond debt." If that is to be the template, I believe the world will remain a dangerous place for sovereign debtors facing unsustainable debt burdens. The damage in Argentina has already been done—not least by the Argentine authorities—and it is massive. It would be a stretch to describe as successful any restructuring coming out of this episode. This is the unresolved core of the argument over SDRM and all the proposed alternatives. One must ask whether any proposal to deal with sovereign debt crises holds the promise of reducing their costs and not just whether a deal is struck. The SDRM proposal is based on the promise that early action—in Argentina in mid-2001, for example—can help limit the costs to both "innocent citizens" and creditors. But perhaps neither the advocates of SDRM nor the proponents of the alternatives have worked hard enough to demonstrate the impact of their proposals on the costs of rectifying a sovereign default.

This unfortunate aspect of the history of debt crises is prevalent as well in the detailed but well-told story of the Paris Club. Again, it was primarily the needs of creditors—the desire to avoid budgetary action and the like—that led to the repeated reschedulings that snowballed the debt of the poorer countries in the 1980s and early 1990s. Only very late in the day did official creditors accept debt reduction, and only later still did the international financial institutions join in with the Heavily Indebted Poor Countries (HIPC) Initiative. The portrayal of much of this history is valuable and insightful.

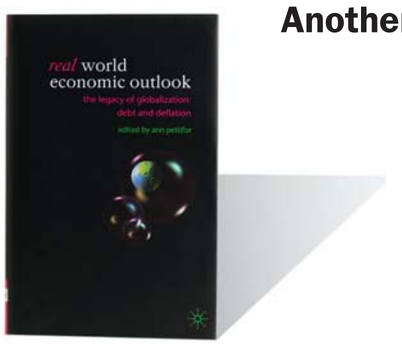
However, Rieffel overplays the confusion he says the HIPC Initiative has created. The confusion arises—and the author understands this—because of the tendency for some to see HIPC assistance as simply another form of aid to the poorest countries. All too often, when a HIPC-eligible country has faced a worsening situation, there has been a call from some quarters to increase HIPC assistance. But the HIPC Initiative has one aim: to make countries' debt-service burdens sustainable, and it has good flexibility in trying to ensure that aim. These countries' other needs should be dealt with through more traditional—and, many of us hope, sharply enlarged flows of—development and humanitarian assistance.

One last point. In the portrayal of recent history—the crisis of the 1990s and of the architecture and debt restructuring debates of the past six years or so—the contributions of academics and of organizations other than the IIF deserve greater attention.

This review has been mostly critical, but the work deserves more than that. It is, as Peter Kenen says on the dust jacket "a compact, readable account of a complex story that is not readily available elsewhere." Rieffel deserves credit for producing what will likely become an important source book in this area. Where it disappoints is in failing to propose a real alternative to the current ad hoc and—in the view of some of us—unduly costly means for resolving sovereign debt crises.

Jack Boorman
Former Director of the Policy Development and Review Department and currently Consultant to IMF Management

Another World Economic Outlook Is Possible?



Ann Pettifor (editor)

***Real* World Economic Outlook**
The Legacy of Globalization: Debt and Deflation
Palgrave Macmillan, Houndmills, Basingstoke, Hampshire and New York, 2003, £50 (cloth), £16.99 (paper).

THIS BOOK, "an alternative to the IMF's influential biennial *World Economic Outlook*" (*WEO*), is the brainchild of Ann Pettifor, Director of the New Economics Foundation. The idea of subjecting IMF staff to competition has merit, and one hopes that Pettifor's new project will build on its promising start. The book is a series of 25 essays by luminaries well known for their discontent with globalization and "neoliberal economics," among them Joseph Stiglitz, Dani Rodrik, and Dean Baker. To those following the debate on globalization, much of this content will be familiar: it has been said before in other publications and forums, often by these very authors. Nevertheless, it's useful for the *Real World Economic Outlook* (*RWEO*) to collect all these arguments in one place.

Having accused the *WEO* of selective presentation of facts "to numb readers into false comfort," the *RWEO*, however, often presents evidence in a manner calculated to provoke a false sense of alarm. For instance, in the presentation of the evidence on inequality, much attention is lavished on a study by Branko Milanovic that found a rise in global inequality between 1988 and 1993. A footnote says that "Milanovic is currently working on 1998 data." This is disingenuous. The author of the essay, no stranger to the columns of this magazine, surely knows that Milanovic found a sharp decline in global inequality between 1993 and 1998.

The essays on the outlook for the different regions tackle themes familiar to readers of the *WEO*—the challenge of generating economic growth in the Middle East, the severe economic impact of AIDS on Africa's growth, and the need to bring about an orderly adjustment in the U.S. current account deficit. This part of the book would benefit from some consistency in presentation across the essays. Some deal with the near-term outlook; others take a retrospective look and offer little by way of an outlook, other than to say that it is "grim."

Unlike the *WEO*, the *RWEO* does not offer forecasts of near-term economic developments. Perhaps, since the outlook seen by its writers is generally one of economic and environmental apocalypse, it is pointless to worry about whether growth is 3 percent or 4 percent on the way there.

Prakash Loungani
Assistant to the Director
IMF External Relations Department