

Globalization Gets Mixed Report Card In U.S. Universities

By Jon E. Hilsenrath. Wall Street Journal. New York, N.Y.: Dec 2, 2002.

Santiago Pardo remembers listening to an inspiring pro-trade speech in 1995 when he was at the University of the Andes in Bogota, Colombia. The speaker, Colombia's Harvard-trained trade minister, convinced the student of the country's need to open more to foreign trade and investment. Before long, Mr. Pardo was working at the trade ministry himself and pushing that agenda.

This year Mr. Pardo is doing postgraduate work in international affairs at New York's Columbia University, where two of the world's leading economists offer sharply different views of globalization. It's a high-stakes debate being repeated at universities across the country, and it affects hundreds of avid foreign students who will return home and preach the gospel of economic development according to their American mentors.

One of the Columbia luminaries is Joseph Stiglitz, the 59-year-old winner of last year's Nobel Prize in economics and chairman of the Council of Economic Advisers during the Clinton administration. He argues that 1990s-style globalization -- broadly defined as the freer movement of money, goods, services and people across borders -- has put many developing countries through a decade of financial and economic turmoil. His "Globalization and Its Discontents" is among the most talked-about books in the field today.

The other is Jagdish Bhagwati, 68, a leading adherent of free trade, who is working on a book to be called "In Defense of Globalization." He describes Mr. Stiglitz's argument as "Jurassic Park" economics, "trying to revive dinosaurs which we hoped we had slain."

Mr. Pardo, a stocky 29-year-old with dark, short-cropped hair, has classes with both. "It makes you think twice about the things that you believe," he says.

For the past three decades, U.S. economics departments have been schooling an ever-growing proportion of foreign students, many of whom go on to become business leaders, government ministers and even presidents back home. The earlier generation embraced the globalization that came to characterize the 1990s, believing it would lead to widespread prosperity. After the economic and financial distress that has hit Mexico, Asia, Russia, Argentina and Brazil in the past decade, the current generation is absorbing a sobering new message about globalization and the tradeoffs and turmoil that can come with it.

The shifting intellectual landscape is playing out at universities around the country. At Harvard University, Dani Rodrik, an economist at the Kennedy School of Government, is examining the limits of free trade in promoting economic growth. At Princeton University, economist Helene Rey is developing theories on how emerging markets are prone to crash when they open their financial markets. At the Massachusetts Institute of Technology economist Daron Acemoglu is exploring how weak bankruptcy rules or toothless regulators could wreck an economy newly opened to the world economy.

Columbia has been an especially aggressive recruiter of high-profile professors focused on globalization. After luring Mr. Stiglitz from Stanford University last year, it hired Jeffrey Sachs, 48, from Harvard in April. Mr. Sachs is running Columbia's Earth Institute, which explores how the global economy is linked to issues such as poverty, disease and environmental degradation. The professors receive top-of-the-scale compensation packages in the neighborhood of \$300,000 a year including benefits, according to people familiar with the packages.

For the past several decades, economics departments have been an important breeding ground for free-market boosters. Chile's "Chicago Boys," a group of economists who trained at the University of Chicago, set their country on a path of privatizing state-owned enterprises in the 1970s. Over the next two decades, U.S.-trained economists came to dominate policy positions throughout Latin America. Among other things, they helped roll back barriers to certain imports -- which their government had previously imposed in an effort to stimulate local industries. Mexico's former President Ernesto Zedillo, Argentina's former Finance Minister Domingo Cavallo and Peru's current President Alejandro Toledo, to name a few, all were trained in economics in the U.S.

Mr. Zedillo, 50, who is now running a center on globalization at Yale University, says he returned to Mexico from his student days at Yale during the 1970s convinced that the trade-barrier model "was fully exhausted for Mexico and all of Latin America." Mr. Cavallo, 56, who studied at Harvard during the 1970s and is now a visiting professor at New York University's Stern School of Business, says that by the 1980s, "there was agreement among economists that in the end, trade and financial liberalization should be beneficial for everybody."

Mr. Pardo's views took shape against this background while he was an undergraduate at the University of the Andes in Bogota during the late 1990s. He read the work of Mr. Bhagwati, absorbing the Columbia professor's view that developing countries could enrich themselves by opening more to trade. After graduating, Mr. Pardo went to work at the country's Ministry of Foreign Trade, joining a team assigned to negotiate for Colombia in talks -- which continue today -- to create a 34-nation Free Trade Area of the Americas that would lower tariffs in North and South America. He urged his father, who runs a small business in Bogota supplying farmers with veterinary medicine, to start looking for markets beyond Colombia's borders.

"When I came to Columbia, I was expecting more of the same," says Mr. Pardo, an eager student who sits in the front of Mr. Bhagwati's class, firing off intricate questions on the nuances of trade law. But Mr. Pardo has been hearing a different message from Mr. Stiglitz. "Capitalism, American-style, had some real problems," Mr. Stiglitz said earlier this term, as he roamed a tightly packed lecture room filled with mostly foreign students. He argued that the protestors who rally in the streets at meetings of the International Monetary Fund or the World Trade Organization have a point about globalization. It could be a force to enrich people everywhere, he said, but in practice it has hurt many of the world's poorest countries and emerging markets. To underscore his point, Mr. Stiglitz cites a World Bank study

showing that the number of people living on less than \$2 a day increased by nearly 100 million during the booming 1990s.

In "Globalization and Its Discontents," Mr. Stiglitz argues that the villain is a "Washington consensus" at the U.S. Treasury and the IMF that has pushed the rest of the world to open too quickly, and which has pushed austerity on poor countries that instead needed stimulus. Such moves, he claims, led to the huge volatility in financial markets that helped create Asia's severe economic crisis in 1997 and to premature attempts to privatize state-owned enterprises in Russia.

Mr. Stiglitz even takes shots at free trade, a sacred cow for most economists, who generally believe it helps countries focus on what they do best and allows consumers to get the best products for the lowest price. Mr. Stiglitz argues that trade hasn't been opened in the right way. For instance, he says, African countries were made worse off by trade liberalization during the 1990s because trade was opened for services exported by rich countries -- such as financial services -- but remained protected in areas where poor countries could compete, such as agricultural goods, textiles or construction. In Latin America, he says, growth in the 1990s was slower, at 2.9% a year, than it was during the days of trade protectionism in the 1960s, when the region's annual growth rate was about 5.4%.

Mr. Stiglitz believes globalization can work only if the IMF is less aggressive in pushing countries to open their markets, and if countries themselves focus on creating social safety nets to protect against the unemployment that might initially result from freer trade and capital markets. Such views strike a chord among his international students. Many say their countries have no alternative but to open to the world economy, but they are looking for different ways to do it.

"Before I came here, I truly believed that liberalization was the way to go," says Thanate Aiyaranaparak, 26, a wiry and soft-spoken student from Thailand, who was sent here to earn an MBA by Thai Farmers Bank, the country's second-largest bank. "Now I might be more skeptical." In January, when his studies are finished, he will return to Bangkok to work for the bank, whose president has a master's degree in business administration from Harvard. "When I was in college, I thought that liberalization was the key to everything. I truly believed in markets," says Claudio Vargas, a Brazilian classmate who wants to become a media mogul. "But there is a gray area. There is a lot of proof that countries didn't do their homework in terms of preparing themselves for the challenges of globalization."

These students embody a growing force in U.S. universities. According to a survey by the National Council for Education Statistics, more than half of the roughly 3,000 students earning graduate degrees in economics in the U.S. come from foreign countries. Forty years ago, the figure was just above 20%. A 1996 survey of 500 of these students found they came primarily from prominent, well-educated families, and a large number planned to return home eventually to work in government, business or academia.

Mr. Pardo plans to return home to work, too. But Mr. Stiglitz's message leaves him uncomfortable. "Blaming the IMF will never solve our problems," he says. "We are the ones responsible for our future."

Sensing that the intellectual tide was moving against open markets, Mr. Pardo stayed after a class in trade law earlier in September, urging Mr. Bhagwati to speak out more vocally in favor of globalization. Mr. Bhagwati, who had been grouching privately for months that Mr. Stiglitz's views about globalization were too alarmist, is becoming more public about his disagreements with the Nobel winner.

"I love a good intellectual fight," the Bombay-born economist says. Mr. Bhagwati recently finished a scathing review of "Globalization and Its Discontents" for the Times Literary Supplement, a British weekly. In it, he argued that Mr. Stiglitz is too focused on "a piffling personal battle with" the IMF and fails to thoroughly analyze the impact of globalization. In his own "Defense of Globalization," Mr. Bhagwati will argue that not only free trade but also foreign investment by large multinationals have improved both the economic and social welfare of many countries, including the developing world. He argues, for instance, that women's wages in many developing countries have increased as multinational investment has risen.

Mr. Bhagwati says globalization has also helped to reduce poverty, most notably in China and India. While Mr. Stiglitz points to rising poverty, Mr. Bhagwati's view gets support from another Columbia professor named Xavier Sala-i-Martin. Using statistics from 125 countries, he argues that the number of people living on less than \$2 a day declined by nearly 500 million between 1976 and 1998.

Messrs. Stiglitz and Bhagwati say they remain friendly, and Mr. Stiglitz notes that there are also important areas where the two agree. For instance, both have been outspoken advocates of capital controls that would restrict the waves of short-term investment and lending that brought turbulence to developing markets in the 1990s.

Yet in private, the two intellectuals are as blunt as ever. "We thought we had finally won these battles against this fear of integration. He is going around gumming up the works," Mr. Bhagwati says. Mr. Stiglitz fires back: "That is part of Bhagwati's charm, that he's such a curmudgeon."

Mr. Pardo says he's sympathetic to the need for capital controls, but he's not backing down from his full commitment to free trade. For his term paper for Mr. Stiglitz's class, he plans to argue against the idea that some developing countries should take more time to liberalize their trade. The classmate with whom he is co-writing the paper doesn't agree. But Mr. Pardo says he hopes the two can find some middle ground.