Globalization Defended

Offering a confident defense of globalization, now assailed by many critics, Harvard president Lawrence H. Summers delivered this year's Edwin L. Godkin Lecture Series at the Kennedy School of Government on April 7, 8, and 9. He was chosen for the distinguished lectureship by a faculty committee of the school.

He began by stressing the importance of economic growth in the developing world. If people in industrialized countries could wish only one thing for people in poor countries, it should be that they get to be richer. Moreover, that will be hugely in the interests of the United States. "From a security, from a moral, or from an economic perspective," he said, "the most important determinant of the international success of the United States of America will be almost entirely what happens in the developing world, or how the process of globalization plays out."

He devoted his second lecture to international financial institutions and the flow of capital and argued that, contrary to the critics of the International Monetary Fund and the World Bank (prominently, economist and Nobel laureate Joseph E. Stiglitz in his book *Globalization and Its Discontents*), it would be hard to devise better institutions than these to raise capital to transfer from the richer countries to the poorer countries and to allocate that capital effectively.

"Let us imagine," Summers proposed in his final lecture, "that my economic analysis is correct, or that it is approximately correct, emphasizing both the importance of economic growth and the importance of market-oriented policies for achieving that objective. One immediately confronts a central reality....The signs of resistance, frankly, are everywhere: in universities on every continent, in the views of nongovernmental organizations that provide the primary political support for development assistance in the industrialized countries, to French farmers, to those on the streets of Seattle."

In the context of the United Nations debate over Iraq, and opposition to American views, he observed, much "anti-Americanism...is closely linked to concerns about market-oriented economic policies....[T]he United States, on a matter that it identified as being of fundamental importance to it, had difficulty generating support from Mexico, from Chile, from Angola, from Cameroon—developing countries which traditionally have been...highly supportive of the United States." That poses for the United States, he said, "a central task of persuasion. It is a task of political leadership."

Education, said Summers, is of overwhelming importance in that effort, over time, to advance what he called "a true if unpopular and sometimes counterintuitive set of convictions about what best produces sound economic outcomes." He faulted another president for his mercantilism: "Mercantilist economics is hardwired into the brain. Abe Lincoln captured the basic intuition of almost anyone who has not thought hard about the question when he said that he didn't really understand that much about international trade, but it seemed to him that if he bought a coat from an American, he had a coat and an American had a dollar, and that if he bought a coat from a foreigner, he had a coat and a foreigner had a dollar, and it seemed to him better to do it the first way. That, of course, is wrong. It is wrong because it fails to recognize the central interest that we have in international trade, which is that it benefits the consumer as well as the producer, that the basic reason for international trade is to be able to raise levels of income by enabling people to purchase goods at lower costs to raise their real incomes. If that single insight were held more broadly, it would make a very big difference...."

Summers proposed four adjustments to the policy trajectory that the United States is on. "First, more open trade policies. It is difficult to see why we should allow ourselves to be on the defensive, as we urge market-oriented policies, because of our own trade policies—particularly in areas like textiles and steel, where the trade policies we pursue actually do damage to our own national economic interests and reduce the number of Americans who are working and reduce the real income of American consumers.

"Second, our meeting of obligations to international institutions. What possible benefit could the United States accrue... from the frequent situations that occur in which—to just take our alphabetical neighbors—Uruguay and the United Arab Emirates are meeting their obligations to the United Nations and the international financial institutions, and the United States of America is delinquent?... [A]t a time when we are desperately in need of goodwill around the world, it is remarkable that we as a country choose not to meet even these ritualistic obligations.

"Third, we should transcend our commercial interests in our dealings with developing countries. Here for a variety of reasons...no small amount of U.S. economic diplomacy vis-à-vis developing countries is directed at getting orders for U.S. firms or advancing the commercial objective of particular U.S. institutions as against particular foreign institutions. Our capital in the developing world is scarce, and we surely make a mistake when we use that capital for purely commercial purposes, rather than to advance longer-term economic objectives....

"Fourth, and most consequentially and most difficult, we should be providing more assistance than we are, both to developing countries directly and for the in-

President Summers on the crucial process of globalization

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Anti-WTO marchers, Seattle, fall 2000

ternational institutions. There is plenty of room for debate about just how efficacious assistance is.... Nonetheless, at a time when alliances are essential, at a time when these issues are being debated and the valid policies that we are advocating are the source of so much resentment, we cannot but damage our interests enormously to be as minimalist in the provision of foreign assistance as we have been in recent years. There is no reason why it is in our national interest to lag the remainder of the OECD [Organization for Economic Cooperation and Development]."

In the course of the lecture, Summers cautioned against the thesis that terrorism has its primary roots in poverty, that aggression is grounded in national disappointment, and that the key to global security is successful efforts to raise the standard of living of people in developing countries. "Those on the airplanes on September 11 were not poor," he said. "The most careful empirical study, done by Alan Krueger [Ph.D. '87, professor of economics and public affairs at Princeton], of the Palestinian experience suggests that suicide bombers are if anything drawn disproportionately from upper-middle-class, rather than middle-class, families.... I confidently assert that it is overwhelmingly in our interests to support the growth of the developing world, but [I] do so stopping short of the belief that it is anything like a sufficient condition for the maintenance of U.S. security...."

Social Investing

In creating a diverse portfolio for Harvard's $17.5-billion endowment, the University's investment arm, Harvard Management Company (HMC), invests in hundreds of firms. That means weighing the probable return against the probable risk across scores of industries. Invariably, some of those investments will be questioned by members of the community or by the media—as the University's investments in defense contractors led to questions of war profiteering during the recent conflict in Iraq. In April, 26 faculty members signed a petition decrying the University's investments in defense manufacturers after a *Harvard Crimson* article reported that, according to securities filings, HMC might earn more than $4 million from the boost the war gave defense stocks. Such discussions raise another way of balancing risks and returns—does the academy have a moral obligation to be socially responsible when it invests? "The University wants to be careful with its investment program," HMC president Jack Meyer, M.B.A. '69, says. "We have to be aware of social pressures."

As Brian C.W. Palmer '86, Ph.D. '00, sees it, the academy has an obligation to question where its investment dollars are going. "An investment firm is set up to be responsible to a limited group of stakeholders—usually just the investors who are in it for a maximum return over time," says the lecturer on the study of religion, who teaches a popular College course on globalization and human values. "Harvard is responsible to a much bigger group of stakeholders—its faculty, students, staff, and alumni." Indeed, Harvard has been debating its investing ethics for more than 30 years.

The modern shareholder responsibility movement began in the spring of 1970 when the Project for Corporate Responsibility, backed by Ralph Nader, LL.B. '58, embarked on "Campaign GM." Owning exactly 12 shares of General Motors stock, the group successfully placed two proxy issues in front of GM that called for greater openness in the boardroom and a greater role for corporate social responsibility. Following extensive conversations with Harvard students, faculty, and alumni, the Corporation decided to vote against both resolutions—much to the disgust of many students and faculty.

Aware that the issue of the academy and corporate responsibility was just beginning, then-president Nathan M. Pusey appointed a committee on "University Relations with Corporate Enterprise." The report—by what came to be known as the Austin Committee after its chairman, Robert W. Austin, then Wilson professor of business administration—traced the ethical obligations of the University as an investor and recommended that the president appoint an "officer of substantial standing" to serve as an internal ombudsman in regard to the University's investments. The report led the outgoing presi-