

Economist's View

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Wednesday, October 11, 2006

Joseph Stiglitz Q & A

A Q&A with Joseph Stiglitz:

[Q & A with Joseph Stiglitz, by Daniel Altman, Managing Globalization:](#)

We're truly fortunate to have Joseph Stiglitz's responses to readers' questions today.

I sent Professor Stiglitz nine representative questions and asked him to answer five or six. He answered them all - thoroughly...

Q. Since the beginning, economics has sought to perfect "economic well-being" as in, lay down the conditions to maximize well-being and explain faltering well-being. What does this well-being entail? There should be a definition of economic well being that functions independently of capitalist or socialist classifications. Would you care to explain your definition of the one entity that guides all economic theories: "economic well-being"? Himanshu Kothari United States

A. There is no simple measure of economic well-being, and unfortunately, the standard measure, gross domestic product per capita, is misleading. This is important, because ... if we try to "maximize" the wrong thing, there can be serious adverse consequences. I stress the importance of equitable and sustainable development and growth. GDP can be going up, yet most individuals can be worse off (as has been happening in the United States during the past 5 years).

Similarly, GDP can be going up, yet standards of living going down, as the environment becomes degraded... When I was chairman of the Council of Economic Advisers, I pushed for the use of Green GDP, where account is taken both of the depletion of natural resources and the degradation of the environment. ...

Neither will growth be sustained if it is based on borrowing—when debt is used to finance consumption, not investment. ... Today, many are worried about America, whose growth is based on borrowing more than \$3 billion a day from abroad.

GDP may be a misleading measure for another reason: it measures the value of what is produced in the country, not the income of the citizens of the country. When a developing country opens up a mine, with low royalties, most of the value of what is produced may accrue to the foreign owners; and when account is taken of the environmental degradation and resource depletion, the country may actually be worse off.

Q. What I find difficult to imagine is why a "superior authority," such as the government or an international organization, would be able to regulate/decide what is the best trading strategy for any given country/region/community. Why shouldn't we let the free market forces determine what is the best for the world? What is your opinion on the issue on free worldwide market forces vs. regulation? Guillermo Bona Switzerland

A. Adam Smith, the father of modern economics, is often cited as arguing for the "invisible hand" and free markets: firms... But unlike his followers, Adam Smith was aware of some of the limitations of free

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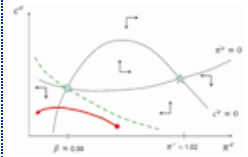
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markets, and research since then has further clarified why free markets, by themselves, often do not lead to what is best. ...[T]he reason that the invisible hand often seems invisible is that it is often not there.

Whenever there are “externalities”... markets will not work well. Some of the important instances have been long understood—environmental externalities. Markets, by themselves, will produce too much pollution. Markets, by themselves, will also produce too little basic research...

But recent research has shown that these externalities are pervasive, whenever there is imperfect information or imperfect risk markets—that is always. Government plays an important role in banking and securities regulation, and a host of other areas: some regulation is required to make markets work. Government is needed, almost all would agree, at a minimum to enforce contracts and property rights.

The real debate today is about finding the right balance between the market and government (and the third “sector”—non-governmental non-profit organizations.) Both are needed. They can each complement each other. This balance will differ from time to time and place to place.

Q. What is the future of globalization where there is an increasingly greater disproportion between the movements of capital and goods and that of people? Nabil El Aid El Othmani Morocco

A. This disparity in the liberalization of capital and labor is a major problem. Enormous energy has been focused on facilitating the flows of investment and capital, while movements of labor remain highly restricted. This is so, even though the gains to global economic efficiency from liberalizing labor flows are an order of magnitude greater than the gains from liberalizing capital flows. Indeed, liberalizing movements of short term speculative capital has been associated with increased instability, but does not bring enhanced economic growth...

This disparity has large distributional consequences. Because capital can move easily, it threatens to leave a country if it is taxed, or if wages are not tamed, or worker benefits are not cut. The disparity in liberalization is one of the reasons for the growing inequality in incomes that have marked most countries around the world. It is one of the reasons that even when globalization has brought increases in GDP, it has led to the lowering of incomes of many workers.

There is a risk that unless globalization can be made more fair, so that there are more winners and fewer losers, there may well be a back lash. We should remember that globalization is not inevitable. ...

Q. What is the long-term future of globalization, and indeed the global economy as whole, if core problems like the world's coming water crisis are not addressed? ... Will it take government regulation, an expanded international framework (such as Kyoto), or both? ... Hasan Jafri United States

A. The concerns you raise are real. ...What good would it do ... if we made economic globalization work if, at the same time, we all died as a result of global warming. Worse still, too often the poor are the most vulnerable. ...

On the other hand, globalization has the potential of helping us address these problems. The Montreal Convention, dealing with ozone-destroying gases, included a provision for trade sanctions against any country that did not comply. The threat of these sanctions was one of the reasons that the agreement was so effective.

The WTO seems to have recognized that trade sanctions can legitimately be imposed to ensure compliance with global environmental agreements. Indeed, one can argue that American firms today have an unfair trade

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Wealth Distribution and

advantage over others because they do not have to pay the full cost of their production—a hidden subsidy. They do not have to pay the cost of their greenhouse gas emissions, as firms in Europe and Japan do. We can actually measure the magnitude of this implicit subsidy.

Q. I would like to know what your thoughts are on China's ever-increasing strength (dominance) in the global trading system and its effects on small, wealthy, developed nations. ... Linda Björgvinsdóttir Iceland

A. China will have an impact on almost every country in the world, rich or poor, small or large, but its impacts will differ markedly from country to country. Overall, I believe that growth is positive sum, not zero-sum: China's growth benefits not only the citizens of China, but contributes to a strong global economy. Many around the world benefit from the inexpensive goods it produces; China's large purchases abroad have benefited many producers around the world; and competition from China has kept inflation in check, and that has allowed Central Banks to maintain lower interest rates than they otherwise would have had; and that too has contributed to strong global growth.

But the impacts are varied. China's rapid growth has been contributing to high commodity prices, which have been enormous benefit to the producers of these commodities, but imposed additional costs on competing users. Many factories both in the advanced industrial countries and in developing countries have found that they cannot compete; factories have been shut down and workers face unemployment, or, when they do get another job, lower wages.

Small economies both are more vulnerable and face more opportunities. They are more vulnerable, because they are often less diversified, and an industry in which they have specialized can be wiped out almost overnight. But they face more opportunities, because if they find a niche in which China has a strong demand, their prospects may be very bright. Parts of Ethiopia are doing so much better today than they have in the past, because China has begun to buy sesame seeds...

Q. You have suggested a 'tax switch' and expenditure cuts as possible solutions to the United States fiscal deficit - without hurting growth significantly. What monetary and fiscal steps should China take to reduce its over-dependence on United States consumers and settle down to more sustainable growth rates? Lityc Kurisinkal India

A. China has been intensely concerned about its over-dependence on the United States consumers. As part of its 11th five year plan, announced last March, it has stressed increasing aggregate domestic demand, including consumption. ...

The challenge facing China (unique in the world) is how to get its citizens to consume more. One way is to provide better public social security, health care, and education. Its citizens save as much as they do (savings has amounted to 42 percent of GDP) because they worry about the future; savings are required to protect them. ...

Q. I would like to have your opinion on the recent reconfiguration of voting powers at the International Monetary Fund, and your assessment of how it compares to the dictates for stability of the international financial architecture of the realities of global payments-settlement imbalances and the prevailing situation of accumulated foreign exchange reserves. Malleck Amode Canada

A. As the IMF has increasingly lectured others about the importance of governance, problems in its own political legitimacy have increasingly impaired its efficacy. Granting more voting powers to China and a few other countries that are under represented is a step in the right direction. But even the IMF recognizes that it is only the first step. Critics

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point out that these changes are unlikely to have much effect on its decisions, and they worry that having granted the most powerful of the underrepresented more voting power, the drive for further reform will weaken.

That would be a shame. The U.S. still is the only country with veto power. The choice of the heads of both the IMF and the World Bank make a mockery of legitimate democratic governance. Neither asks who is most qualified, regardless of race, color, nationality. The American president appoints the head of the World Bank and Europe chooses the head of the IMF. The recent selection of the head of the World Bank highlighted the problems.

The IMF's new focus on global imbalances is also a step in the right direction. ... The IMF should have long been focusing on such issues—its real mandate—rather than on development and the transition from Communism to the market economy, areas that are clearly not within its core competence, and where its policies were often badly misguided. ...

Q. Has the World Bank changed since you were there, and if so, is it for better or for worse? Michel Monette Canada

A. Of course, the World Bank has changed, and it will continue to change. The world is changing, and any institution that did not change would quickly find itself in deep trouble.

During my time there, the World Bank began to take on an advocacy role—advocating policies that are needed for the successful development of poor countries, even when they were opposed by some of the advanced industrial countries. It has continued to do that, most notably in its opposition to agricultural subsidies by the U.S. and EU which ... so hurt the developing countries which depend on agriculture.

But a central achievement of this period was the recognition that successful development requires a comprehensive approach—there is no magic bullet. ...

Today, it often seems that the only issue that the Bank talks about is corruption. It sermonizes, but does not have a comprehensive set of policies and approaches to attack it... But even were it to succeed in addressing the corruption, that would not be sufficient to address poverty in the Third World. Money can be spent honestly, but incompetently; and even when money is well spent, unless there are appropriate institutions and policies in place, success will be limited.

The challenges facing the Bank are enormous. There is now a consensus on the failures of the Washington consensus; the free market ideology one size fits all policies failed almost everywhere they were tried. Iraq, already suffering from so many other afflictions, is the latest country to be afflicted with the imposition of these policies, part of the conditions for debt relief. ... Hopefully, as the Bank strives to devise a strategy for itself going forward, it will not revert to these failed doctrines, even if put in new terms. What is needed is a new vision.

Posted by Mark Thoma on Wednesday, October 11, 2006 at 12:15 AM in [Economics](#) | [Permalink](#)
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anne said...

[\[http://delong.typepad.com/sdj/2006/10/let_slip_the_do.html\]](http://delong.typepad.com/sdj/2006/10/let_slip_the_do.html)

October 10, 2006

Let Slip the Dogs of War

Edited by Brad DeLong

Iraqi Death Toll Exceeds 600,000, Study Estimates

By NEIL KING JR. - WSJ.com

A new study asserts that roughly 600,000 Iraqis have died from violence since the U.S.-led invasion in March 2003, a figure many times higher than any previous estimate. The study, to be published Saturday in the British medical journal the Lancet, was conducted by the Johns Hopkins Bloomberg School of Public Health by sending teams of Iraqi doctors across Iraq from May through July....]

Reply Wednesday, October 11, 2006 at 04:11 AM

john i said...

Thanks anne that was really an appropriate remark how dare stiglitz leave out iraq when he is discussing the world economy.

Reply Wednesday, October 11, 2006 at 07:22 AM

anne said...

No; Joseph Stiglitz is a gem, but I thought this report of importance enough to refer to in brackets. Again, though, possibly no discussion of globalization should pass where the lunatic tragedy of our occupation of Iraq fails to be mentioned. Joseph Stiglitz, be assured, understands.

Reply Wednesday, October 11, 2006 at 07:29 AM

anne said...

Yes; thank you, when discussing the world economy, when discussing managing globalization, there must always be reference to such a needless lunatic tragedy as Iraq. We have, after all, involved ourselves in a trillion dollar war and occupation, when a trillion dollars might well have been spent manage globalization in a thoroughly benign way for Americans and so many others. Thank you, Iraq is so dearly relevant.

Reply Wednesday, October 11, 2006 at 07:36 AM

anne said...

<http://www.nytimes.com/2006/10/11/washington/11veterans.html>

October 11, 2006

Data Suggests Vast Costs Loom in Disability Claims

By SCOTT SHANE

Nearly one in five soldiers leaving the military after serving in Iraq and Afghanistan has been at least partly disabled as a result of service, according to documents of the Department of Veterans Affairs obtained by a Washington research group.

The number of veterans granted disability compensation, more than 100,000 to date, suggests that taxpayers have only begun to pay the long-term financial cost of the two conflicts. About 567,000 of the 1.5 million American troops who have served so far have been discharged.

"The trend is ominous," said Paul Sullivan, director of programs for Veterans for America, an advocacy group, and a former V.A. analyst.

Mr. Sullivan said that if the current proportions held up over time, 400,000 returning

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Science

service members could eventually apply for disability benefits when they retired....

[Reply Wednesday, October 11, 2006 at 09:51 AM](#)

anne said...

No brackets here, I am too angry. There is, we have to understand, a trade between butter and guns, and we have chosen guns. We have chosen a trillion dollar war and occupation, beyond the physical, psychological and moral costs, when there might have been the butter of peace here and internationally as we assisted internationally.

[Reply Wednesday, October 11, 2006 at 09:55 AM](#)

evagrius said...

It's a fairly well known fact that the ratio of wounded to killed casualties is roughly ten to one, (or was). The ratio has now gone up because of the U.S. skill in emergency medicine- (this skill was honed in the ghettos and 'hoods of the U.S.A.- there's a well-known emergency room surgeon, a specialist in multiple gun-shot wounds victims based in New York who is a consultant to the U.S forces in Iraq)). Remember, the U.S. ranks #1 in the WHO survey for emergency services. Also, those multiple gun-shot victims are there because of the U.S. fixation on the 2nd amendment.

All in all a pretty good return on the investment.

[Reply Wednesday, October 11, 2006 at 11:16 AM](#)

anne said...

Fierce and true comment.

[Reply Wednesday, October 11, 2006 at 11:29 AM](#)

slink said...

anne with out intending it
u point out the stig rex problem

he can't move folks with his phrases
u read go ya ya very true
then make an additional point
his renditions fatigue his fans and
flow over the unengaged like bad local radio adds

he seems to bleet like a sheep
when he's really a wolf...
to keep it in animal terms

el stig
needs a bull dog like darwin had in huxley

[Reply Wednesday, October 11, 2006 at 12:53 PM](#)

anne said...

Slink, what a remarkably incisive comment; I agree completely.

[Reply Wednesday, October 11, 2006 at 02:25 PM](#)

himanshu said...

sir,as we see inflation is rising at alarming rate, in today's world.Can there be any measure to control over it?

[Reply Wednesday, August 05, 2015 at 02:43 AM](#)

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The views expressed on this site are my own and do not necessarily represent the views of the Department of Economics or the University of Oregon.



Mark Thoma
Department of Economics
University of Oregon

Blog Established
March 6, 2005

(URLs automatically linked.)

Email address is not displayed with comment.

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Meet on Friday

**Did the Natural Rate
Fall***?**

**Desire to Serve, Ability to
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to Act**

**Whose Expectations
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Curve?**

**Which Measure of Inflation
Should a Central Bank
Target?**

**False Discoveries and the
ROC Curves of Social
Science**

**Macroeconomics Research
at Liberal Arts Colleges**

Environmental

Economics

**I guess the Great Wall of
Trump will need to
keep them in?**

**I'm at that point in my
career where I'm ready
to do something
absolutely crazy**

**"Economists Recommend
Setting Aside Part Of
Every Paycheck In Case
Of Dire Straits Reunion
Tour"**

Data point of the day

**A reminder of who we are
supposed to be (or
used to be?)**

**Can my students now use
The Onion as a
legitimate news
source?**

**Now maybe John will stop
whining about how
stressed out he is***

Tim Taylor

**Refugees, Displaced,
Resettled: Some Global
Snapshots**

**Remembering Herbert
Scarf: 1930-2015**

**Why More Humanitarian
Aid Should be Given in
Cash**

**Uber: What are the Real
Economic Gains?**

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Mistakes in US Health
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**Overconfidence: The
Ancient Evil**

The Big Picture

**Collapse of Commodities in
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**Structural Changes at
S.E.C.**

10 Friday AM Reads

1937 Delahaye 135 M

**The Corporate Saving Glut
in the Aftermath of the
Global Financial Crisis**

Dan Harris: Think You're a Good Multitasker? Stop Lying

Compounded Annual Returns for Individual Stocks

Beat the Press

Foreign Aid: \$30 Billion May Not Be What You Think It Is

Ending Loser Liberalism: Why a Market Based Approach Makes Sense

News for Ruth Marcus: Third Way Policies Gave Us the Great Recession

NYT Wrongly Describes Protectionist TPP as "Free Trade"

Longevity and the Rising Costs of Social Security

Robert Samuelson and the Non Problem with Fannie Mae and Freddie Mac

U.K. Non-Financial Sector to Become More Internationally Competitive According to Bankers' Group

Jared Bernstein

President Obama makes an interesting point about economic messaging

Remember tax inversions? ...they're baaaack!

Models of the minimum wage (for what they're worth)

Imagine that...candidates actually debating substantive differences on economic policy

Incoherency on the TPP's currency "side deal"

Wherein I argue with friends and allies about the Cadillac tax

This is your paycheck at full employment... maybe

Robert Reich

The Perils of Circus Politics

What I Learned on My Red State Book Tour

Reality Check

The Rigging of the American Market

On Leaders and Demagogues

THE 4 BIG LIES ABOUT IMMIGRANTS – AND THE TRUTHDonald...

The Morality of a \$15 Minimum

Rortybomb

interfluidity**[Advice for Twitter](#)****[Translating "net financial assets"](#)****[1099 as antitrust](#)****[How to fix the Euro](#)****[Price stickiness is not a mystery, and it is not psychology](#)****[I love Germany. And Greece. And especially Finland.](#)****[Banks and Greece's bailouts](#)**

Modeled Behavior**[Low-Skilled Labor Markets Need Better Information](#)****[Hedging Against Robot Stealing All The Jobs](#)****[Is Uber's Service Doomed To Get Worse?](#)****[Immigration And Protectionism](#)****[Virtual Reality And Creative Industries](#)****[Actually, Everyone Benefits From Free Trade](#)****[Is Education Reform A Pipe Dream?](#)**

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Dave Giles**[November Reading](#)****[New Forecasting Blog](#)****[Angus Deaton, Consumer Demand, & the Nobel Prize](#)****[Lies, Damned Lies, & Cointegration](#)****[Cointegration & Granger Causality](#)****[Illustrating Spurious Regressions](#)****[What NOT To Do When](#)**

Data Are Missing

Chris Dillow**Keynes' error****Migration as poverty reduction****"Best practice"****Elites vs representation****Lies we've told our children****Blairism vs the left****Limits of the profit motive**

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Greg Mankiw**Regulatory Complexity****What I've been watching****Obamacare as Redistribution****Where I'll be this week****Presidential Probabilities****Cochrane on Economic Growth****Keep the Cadillac Tax**

Economic Principals**Trading Places****EP is not writing this week****Europe on the Verge****The Two Worlds of Paul Ryan****When "Side-Occupations" Showed the Way**

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China Started At Least
4 Years Ago****On the Lack of Courage in
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Kevin Drum**Friday Cat Blogging - 20
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You'd Expect in a Newly
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treat them like this****ISIS can only succeed if we
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controversial part of
Obama's trade deal
really does****Larry David's Bernie
Sanders impression
has, amazingly, gotten
even better****What Bernie Sanders gets
wrong about Obama's
trade deal**

Matt Yglesias**This chart shows
something's gone
wrong with the US
housing market**

Donald Trump's Muslim database, explained

The political history behind Bernie Sanders's call for democratic socialism

The Marriott/Starwood merger is another case of the rich getting richer

Obama's biggest terrorism struggle: how to sell "Don't do stupid shit" as a strategy

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Steve Benen

Rubio faces leadership test and flunks

Friday's Campaign Round-Up, 11.20.15

Failing to rise to the occasion

The importance of Cruz's 'National Prayer Team'

GOP congressman tries to connect refugees, Benghazi

The 'reality gap' poses real political challenges

Jeb Bush clumsily claims high ground against Trump

Felix Salmon

People flunked this money test because the questions were dumb

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