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By Stefan Stern Monday, 22 January 2007



The *MT* Interview: Joseph Stiglitz

Clinton's White House was a comfortable niche for the Nobel Prizewinner, but the climate is colder now for an academic in politics. Rage against the IMF's reluctance to engage in open debate has produced two incisive books about globalisation. The boy from Gary, Indiana, knows his onions.

The professor was running just a little bit late - on the line to Australia, apparently. His charming wife, the third Mrs Stiglitz, explained (on the phone from their suite at London's Savoy Hotel) that he would be right down.

After another 10 minutes the lift doors opened and out stepped the Hollywood film-maker and comedian Mel Brooks. He seemed to have grown a beard for some reason. Brooks came nearer and, oy, what a We use cookies to give you the best browsing experience and to provide you with relevant content and advertising. Well, it was a bit dark in there. In better light it was clear it was indeed an academic sitting in front of me. By continuing to use our website you are accepting our use of cookies as described in our [Cookie Policy](#) for more details.

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But with his glasses and slightly rumpled air he looked every bit the scholar. It was impossible to connect this smiling, mild-mannered presence with the blood-curdling allegations made against him by some conservative figures in the world's financial and economic establishment.

Olivier Blanchard, economics professor at the Massachusetts Institute of Technology (MIT), described Stiglitz's warnings on the risk of privatisation as 'more often than not catastrophic'. And in an open letter to Stiglitz in 2002, Kenneth Rogoff, then head of the International Monetary Fund's (IMF's) research department, said: 'Your ideas are at best highly controversial, at worst, snake oil.' (More on that dispute later.)

Stiglitz has been on a whirlwind worldwide tour, promoting his new book *Making Globalisation Work* (Allen Lane) and speaking to huge audiences. Although he is not a leftist or anti-capitalist - he is not calling for mass state ownership, for example, or punitive levels of taxation - Stiglitz has become a hero to the stop-the-world-we-want-to-get-off protestors.

This new-found fame stems from the unexpected success of his earlier book, *Globalisation and its Discontents*, published in 2002 and an international bestseller. Before its publication, Stiglitz had left academia to work in the Clinton White House as a member of the Council of Economic Advisers (which he later chaired), and then to serve as chief economist of the World Bank between 1997 and 2000.

Brief explanatory note: the IMF and the World Bank are two international, Washington DC-based institutions with different roles. The Bank is a lending institution focused on development issues, while the IMF is more of a police authority, regulating the financial relationships between nations.

Stiglitz had gone to the World Bank because he wanted to highlight the issue of development at the heart of the global economic system. 'When I accepted the job, I said that I would do it only if I could be a spokesperson for the developing countries, not for the World Bank,' Stiglitz explains. 'I want to be able to articulate my view as an economist - and that may not be the Bank's view. My effectiveness as a chief

economist depended on people believing it was my analysis.'

As he explains in *Globalisation and its Discontents*, Stiglitz discovered that it was going to be difficult for him to work in the way he wanted to. There was a crucial discussion to be had about the direction of global economic policy, but the IMF did not seem interested in having it. 'It was very difficult to generate an open, public debate with the IMF,' he says. 'They would say: "We can have a debate, but it has to be closed".'

'In 1997 the IMF decided to change its charter to push capital market liberalisation. And I said, where is the evidence this is going to be good for developing countries? Why haven't you produced some research showing it was going to be good? They said: we don't need research; we know it's true. They didn't say it in precisely those words, but clearly they took it as religion.'

Stiglitz was vindicated by events. The east Asian crisis of 1997 and the implosion of the post-privatisation Russian economy through the 1990s were both exacerbated by the hard-line orthodoxy of the IMF's prescriptions. 'No pain, no gain' was the Fund's mantra. But as struggling countries were forced to cut public spending and raise interest rates - part of the so-called 'Washington consensus' - there was a lot more pain than gain. And the poor in these struggling economies were the hardest hit of all.

More recent events only confirm how much reform is still needed at the Fund and the Bank. Although the World Bank's new president, Paul Wolfowitz, has worked hard on the issue of corruption, the institution still has many critics. The UK's secretary for international development, Hilary Benn, recently threatened to withhold £50 million from the Bank in protest at the conditions it attaches to aid for developing countries. Russia is still in some turmoil, recovering from its treatment at the hands of the IMF. Andrei Kozlov, deputy chairman of the Russian central bank, was shot dead last month. He had been trying to stamp out mafia money-laundering, but the mafia stamped him out first.

Stiglitz left the Bank in 2000 to return to academia at Columbia, and, in spite of all the political controversy he had been embroiled in, was awarded the Nobel prize for economics in 2001 for his work on 'asymmetric information' - crudely, the idea that market participants do not truly operate on the basis of 'perfect information', a key tenet of neo-classical economics.

Stiglitz speaks with conviction and authority about the realities of economic suffering. He grew up witnessing it at first hand. He was born in 1943 in the mid-west steel town of Gary, Indiana. Prompted to describe his past, the professor is only too happy to oblige.

'Do you know the story of Gary?' he asks with a gentle smile. 'It is the quintessential American corporate story. It was named after Judge Elbert H Gary, who was the chairman of the board of US Steel - Andrew Carnegie's company - so it was a real company town, founded by US Steel in 1906. It reflects the history of industrial America. It rose with the US steel industry, reached a peak in the mid-50s, when I was growing up, and then declined very rapidly, and today is but a shell of what it was. The whole city is basically boarded up ...

'My folks lived in the area until 1997 - they were born in the area. My father was born in 1903 three miles from where Gary would be founded. He died when he was 96. He only left the area when he was 92, to go into a rest home.'

Stiglitz does not offer a rose-tinted view of his home town. The city was so polluted it had what Stiglitz calls 'its own aurora borealis' every night. There was so much oil on the surface of the Calumet river it would often catch fire.

'The history of the city is also part of the social history of the US. They tried to break a steel strike, brought in blacks from the south. So the city became a black city, the first to have a black mayor. But there was still segregation. I went to an all-white school,' Stiglitz adds, with an embarrassed laugh, half appalled, half disbelieving, still. Stiglitz's mother, a true FDR liberal, was the only white teacher at an all-black school.

So even though Stiglitz was to go on to enjoy four decades working as an academic at the highest levels and serving in government, he hasn't forgotten the real world. His background would not have allowed it. 'Gary's not the idealised suburbia so many of the elites come from.'

Maybe there was something stimulating in the Gary water, as well as all that oil. Paul Samuelson, another of America's most distinguished economists - as a younger man, Stiglitz edited his work - also came from the town.

Inevitably, you have to ask Stiglitz about life in the Clinton White House. From the professor's perspective it seems to have been part West Wing drama, part high-level intellectual seminar.

'Clinton was always running late,' he says. 'So there were all these people mingling in the West Wing for the half-hour before the meeting; exchanging ideas in a very informal context, a kind of pre-meeting outside the door. It was not a deliberate ploy, but it was very effective. Meetings were always running late, but you came over because that was where the action was. It was very creative. You did your lobbying there.'

Stiglitz cannot help drawing a parallel with the current administration. 'Now we have this "MBA President",' he says. Meetings start on time, but Stiglitz says there is no useful exchange of information. This became clear when Hurricane Katrina struck.

It was different under Clinton. 'I would get to know the head of Fema (the Federal Emergency Management Agency) very well,' he says. 'The Council of Economic Advisers was involved in thinking through how you handle disasters. We wrote a disaster management strategy!

'Disasters happen, always. How are you going to handle it? We had a taskforce, and it wasn't a low-level thing where you appoint some-one whose experience was running Arabian horses (as with Michael Brown, aka 'Brownie', Bush's appointee). It was high-level, making very creative proposals, working with the insurance industry. So the difference between then and now ...'

Stiglitz says veterans of the Reagan and Bush Snr administrations say they have never seen a less communicative presidency: 'If Clinton was the most interactive, Bush is clearly the least.'

And what of Clinton himself? The professor gives his former boss an alpha for ability. 'Extraordinarily bright,' he says. 'Extraordinarily personable. He has the characteristic of a lot of great people that when he talked to you, you felt you were the only person in the room. Somehow you felt he remembered the last conversation, that it wasn't just perfunctory. He was really intellectually engaged.

'We wrote a 20-page memo to him every week on the key economic issues and we used to joke that we had the smallest circulation but the highest-quality readership of any journal in the world. A readership of one! It went to Treasury too, of course.

'Most of the time we would have a weekly meeting with him to discuss these issues. But when he was travelling, he wrote back notes on it. And from the notes he wrote you knew that (a) he had read it and (b) understood it.'

It was with the best of intentions and the highest of hopes that Stiglitz left the White House to join the World Bank in 1997. Of course, if things had gone more smoothly there, he would not have written his recent books and we would not be having this conversation. Stiglitz found himself in the classic situation of the academic trying to function effectively in a political world. His later unhappiness provided a creative stimulus.

'When I wrote Globalisation and its Discontents, I was in a rather unique position,' he says, 'as an academic in the middle of policy, as somebody who saw globalisation from two sides - from the decision-making of the strongest superpower, and the side of the developing country.

'It was an analytic book, but also very much a political book. In the end, I was dissatisfied, and recognised that if things were going to change you had to get more people to understand why they weren't working, and start putting pressure in a democratic way for these changes.'

When the IMF finally consented to debate these issues in the summer of 2002, Stiglitz was bushwhacked. The meeting was off the record, but the IMF immediately released its statement to the press - the Rogoff 'snake oil' slur quoted above. 'They had clearly planned this as an ambush,' Stiglitz says. 'It clearly backfired.'

Had he been expecting such a violent, ad hominem attack? There is a pause, a sheepish grin. 'No, no, I wasn't,' he says. 'I probably should have been. My wife warned me to expect it, but I didn't.'

Has this made him cynical about politics and what happens to academics who get involved? The question provokes another long pause, the longest in our time together. 'It obviously made me think a great deal about what was going on,' Stiglitz says. 'But they couldn't discredit the arguments. The arguments were correct - there was evidence and analysis.

'What do you do when you can't win an argument? Well, in the Middle Ages you had the Inquisition, you executed the person - but we can't do that. So what you do is you try and discredit the person.

'And it was clearly an attempt. There was a mantra. They'd say: "Oh well, he's a very bright person" - it always begins with that - "but he has a political agenda, he doesn't understand policy, he should have stuck with academia ..." It is an attempt to discredit, to say that academia has nothing to do with the policy, and the policy is flawed, or that the policy is motivated by a personal agenda or a political agenda. The interesting thing is that it became almost a ritual. A recent New York Times book review had nothing to do with the book at all ...

'What they didn't realise was that the policy positions I took were very strongly based on my academic work. I view the work as seamless. Predictions about why the policies in East Asia failed were based on my theoretical papers. So in a way they were a vindication of the theories, and that the old theories of perfect information were flawed. I had talked about this effect.

'There is now a rearguard action from a lot of economists who still want to believe in unfettered markets. And because they can't attack the economics, they have become political scientists, in a way. Their answer is not that markets work perfectly, but that government works more imperfectly. So, yes, markets don't work, but trying to do anything about it is likely to be worse.

'But there is a real role for government. Let's try to figure out in the areas where we need government how to make it work better. Accept that collective action is going to be required.'

In Making Globalisation Work, Stiglitz advocates, among many other things, introducing a new global

reserve currency to challenge the status of the dollar. He calls for intelligent market-based incentives for dealing with the problem of pollution and global warming. He says we need more debt relief, more generous and better-designed aid, and a proper commitment to free (and fair) trade.

The professor seems to have come through his neo-liberal ordeal unscathed, his optimism intact. How? Again we have to go back to his roots - the liberal mother, and the political activism of his youth. In 1963 Stiglitz took part in the great civil rights march on Washington, where Martin Luther King delivered his 'I have a dream' speech.

'It was all very exciting, with the (National) Mall filled with people,' he says. 'It's one of the reasons I'm so optimistic about the ability to change globalisation. In the US, we had this very flawed system of segregation for 100 years, from the civil war through to 1960, and it survives all that time. And then civil society begins protesting in the 1950s and 1960s and changes things. Not totally for the good - we haven't eliminated discrimination - but the difference today from what it was when I was a kid is just immense.

'So you see the role of civil society in changing society. Democratic politics worked. That is really the hope behind a book like Making Globalisation Work. This notion of global social justice is a new notion.

'Maybe this is also my mid-western optimism. It is based on the fact that our societies have changed. But it won't change unless people are aware of the issues, and what has excited me is that there are actually a lot of intellectually interesting, deep issues that have enormous consequences for economic policy. Can you articulate them in a way that will motivate people to try and do something?'

Stiglitz has four children from his two previous marriages: three sons and a daughter, ranging in age from 36 to 24. The oldest is a public-interest lawyer - the US equivalent of legal aid. The next son down is a family therapist. The third son is studying for a PhD in political science at Stanford, while his daughter works for Teach America, which sends trainee teachers into tough schools. So, in a way, all the kids have eschewed the commercial world in favour of public service of one kind or another.

His wife, Anya Schiffrin, a former Wall Street Journal reporter, also teaches at Columbia and is Stiglitz's editor and 'content adviser'. They live on the upper west side of New York City.

In spite of the dirt that has been thrown at him, Stiglitz's reputation as an economist is soundly intact. John Kay agrees that his Nobel prize-winning work 'provided a very sophisticated critique of the standard neo-classical paradigm'. Although, he adds: 'It's not at all clear that his many followers in the anti-globalisation movement have truly understood what he is talking about. I'm not sure that they have very much in common with each other.'

Another Clinton insider, the former labor secretary Robert Reich, is even more fulsome: 'Joe is a wonderful troublemaker, an intellectual insurgent. His work is an important antidote to the neo-classical economic models and breathless enthusiasms that spawned the so-called Washington Consensus of the 1990s.'

On hearing the Reich comments, Stiglitz chuckles contentedly. 'I like that, actually. The interesting thing about the insurgency is that in some ways it won the intellectual battle. You can feel the tide turning.

'The insurgency - what I did - was to say: let's take all of your assumptions, except for one that you have to agree with me. You cannot disagree with the assumption that information is imperfect. Let's just take your model with this assumption of just a little bit of imperfect information, and what happens?'

'Every one of the results that you have proved turns out not to be true. So you have been working with a very unrobust model. It just doesn't work. Let's try to understand how markets actually work with imperfect information, and you get all these models that work much better, which describe how markets actually work ... This approach started a major change in the whole direction of the economics profession,' says Stiglitz.

It is a good thing that Stiglitz gives the impression of being able to talk all day, as, at the moment, this is what he is having to do. The world cannot get enough of him. After co-operating good-naturedly with our photographer he has given us the best part of two hours of his time. He has yet another appointment to get to, while your interviewer needs a bit of a lie-down.

We part in the still gloomy reception area of the Savoy. The professor heads west up the Strand on his way to Chatham House. Another lecture, another packed auditorium, another earnest and engaged audience wanting to make some sense out of the confusing and challenging times we are living in.

THREE CHALLENGES FACING STIGLITZ

1. Spreading the word about a form of globalisation that can work without getting shouted down by conservatives and reactionaries
2. Considering carefully the temptation to get drawn back into full-time politics, even if the offer is from a new President Clinton
3. Getting to the next meeting on time

STIGLITZ IN A MINUTE

1943 Born 9 February. Educated at Amherst College, Massachusetts. Took PhD at MIT

1965 Research work and teaching in Chicago, MIT and Cambridge (UK)

1970 Professorship at Yale and subsequently at Stanford, Oxford and Princeton

1993 Joins President Clinton's Council of Economic Advisers (chair 1995-97)

1997 Appointed chief economist at World Bank

2000 Professor at Columbia

2001 Wins Nobel prize for economics

2002 Publishes Globalisation and its Discontents

2006 Publishes Making Globalisation Work.

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