

Interview with nobel prize winner Joseph Stiglitz

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Interview by Sonia Mikich

Moderator: You are the champion of many people who now are fundamentally criticizing institutions such as the World Bank, the International Monetary Fund, World Trade Organization, who are demanding a reform of these institutions, demanding more democracy in the process of these institutions. What actually made you proceed on this way, what made you open your eyes and see things were going wrong?

Stiglitz: I suppose the most important part is being inside in the institutions, seeing from the perspective being the senior Vice President and the Chief Economist of the World Bank, particular seeing how the IMF, the neighbour institution across the street, was operating. Seeing how difficult it was to get changes that made enormous sense to me. But even more important than that seeing how difficult it was to get an open discussion. I was really confident it was right but it seemed to be important in a democratic society before you impose policies that had a very high likelihood of changing downturn into recession and recession into depression, you ought to have a democratic dialogue: that's the way American democracy works and that's the way democracy's working around the world. But these poor countries were given no choice and I could not get an open discussion of these issues.

The answer - I think - in part is the way these institutions are governed, who makes the decisions. The governing body of the IMF - the people who are responsible for the decision - are the finance ministers and the central bank governors. Only one aspect to society has a voice. Now it will be very different if they were making decisions for better ways of clearing cheques, technical issues. I don't think anyone's even caring about that. But when the IMF makes a decision, it affects the unemployment rate, it can affect the environment, it affects the health standards. When the IMF went into Thailand for instance, it cut back its budget, it caused unemployment, the government was forced to cut back on expenditures on AIDS protection, it had made enormous progress in cutting back AIDS and after the IMF was through, AIDS started to increase again.

So every aspect of society is affected by the IMF programs and yet only one voice is heard – and that's the voice of the financial community, these other voices simply are not there at the table.

Moderator: Would you still see the IMF as the standard-bearer of neoliberalism?

Stiglitz: Yes I think I would. I think what is interesting about it though is: it's not exactly a coherent philosophy. It talks as if it believes in free markets and not intervention and one of the experiences I had when I was in the White House - before I went to the World Bank, I was the President Clinton's Chief Economic Adviser - and one of the things I saw over and over again is that everybody believes in free markets in every sector except their own. And everybody believes in no subsidies except in their own.

Well, take that neoliberal doctrine which says: -free markets- Apply it now to the foreign exchange market - what does the IMF - it's a public institution - what does it do in the Midst East Asia Crisis? It has billions and billions of dollars, of bail outs for American and Western European banks, Western Banks...

Moderator: ... so it's interventionist...

Stiglitz: ...so it's interventionist! But it's a very selective intervention. There were billions of dollars to build up the banks but when the poor people in Indonesia said -we need a few million dollars for food subsidies- the IMF said there is no money.

Moderator: What is the greatest danger of neoliberalism in our age?

Stiglitz: Well, I think there are two issues. One, it doesn't lead to economic growth. It doesn't lead to economic efficiency.

Moderator: Some people would dispute that. Some people would say...

Stiglitz (interrupts): The evidence is very clear. Take Latin America which is viewed as the success story... at the neoliberal doctrines. Well, Argentina used to get the eight plus rating from the IMF. What would happen to Argentina? We now have a decade of reform Latin America IMF Washington consensus style. And we can look at the numbers: the growth rates in the decade of reform are just over a half of what they were in the 50s, 60s and 70s before reform. And even worse: where growth has occurred, has benefitted mostly the rich. Mexico is one of the countries that has had growth - but it's... the growth benefits have gone to the upper 30 %, most to the upper 10 %. People of the bottom have seen no benefit and many of the people of the bottom have seen things even worse.

So the dangers are twofold: It doesn't produce growth and it does produce inequity.

Moderator: Now you are saying that neoliberalism is a kind of mantra of certain interest groups, finance capital, the rich elite in certain countries. How is it politically possible that these interest groups can dictate these terms to developing countries?

Stiglitz: First of all, let me say: emphasize the point that it **is** a mantra...

Moderator: Yes... that's, it's religion.

Stiglitz: ...because it's religion, for instance the economic research for which I got the Nobel Prize focused on imperfections of information. One of the results of the analysis of what an economies with information is imperfect, the market is incomplete which is all economies but especially in developing countries is that markets in general are not efficient by themselves, there's important room for government.

The invisible hand which is supposed to make sure efficiency, one of the reasons it's invisible is: because it's not there! So it isn't based on economic science. Economic science pointed out that capital market liberalization exposes countries to enormous risk and doesn't lead to higher economic growth. The countries like China can get foreign direct investment without liberalizing there, opening themselves up to speculative money that can come in and out overnight. That doesn't, that kind of money - you don't build factories with money that can come in and out overnight.

Moderator: Do you find it astounding that social democrat leaders like Tony Blair, like Gerhard Schröder, are actually not very vocal in their criticism of this lack of democracy in the big institutions. Au contraire, actually they are adherents to neoliberalism with a smile.

Stiglitz: I think one of the things that has happened in many of our social democracies - in the United States the democratic party - is that the social democrats have been instilled with a fear of the financial markets.

Moderator: ...because they don't understand them?

Stiglitz: Probably as they don't understand them but what they are told is that if you misbehave, if you criticize the financial markets, they will say: you are an irresponsible government. They will respond to them by raising interest rates. If they responded that by raising interest rates your financial position gets worse and your budget deficit gets worse and then you have a difficult time meeting your other social goals.

Moderator: ...and you won't be reelected...

Stiglitz: And you won't be reelected. So... but even if you weren't concerned of the reelection, if you generally committed to trying to pursue your social objectives you have to have a budgetary flexibility. And if you have to spend billions of dollars more in interest payments because the financial markets don't trust you, that really gets back on what you'd like to do.

So we have a world in which an awful lot of many of the government officials even with those who have the heart in the right place feel intimidated which is in a way why people, those of us who are outside of a government have even more responsibility to speak out.

Moderator: Every day 1.5 billion US-Dollars - that is the figure I read anywhere at the web - are fluctuating around the world in speculative trading. 80 % also which is hot money, short term money. Now there are calls for taxation of these movements. What's your position on it?

Stiglitz: There are two motivations for the Tobin Tax - which is this kind of taxation of capital flows - one of the motivations is that we need a source of revenue to pay for global public goods. As the world is becoming more integrated, globalization has occurred, we have more needs that occur at the global level, we have needs in terms of financing the war against AIDS, financing international other diseases, the war against terror, providing for a better environment...

Moderator: ...addressing poverty...

Stiglitz: ...addressing poverty in developing countries. The development issue alone is estimated to meet the minimum millennium goals. The goal is 15 billion dollars more. So we need more revenue to finance these really important global needs that all of us, I think, feel would benefit from. And we don't have a source of revenue today. Right now, we're in a situation where the US can hold the rest of the world to hostage. The US decided it didn't like something the UN did so it would refuse to pay the dues. This is an intolerable way of running an international environment.

The Tobin Tax is one way of raising that revenue. I think the Tobin Tax has enormous symbolic value. What it is saying is that in recent years financial markets have driven the world. Financial markets have brought enormous instability. Free mobility of capital has not only brought instability with enormous costs to the people in the country including the very poor, it actually changes the bargaining power within a country - because if you have free mobility of capital, if you try to tax capital it says -

we'll leave- - so it's more than symbolic. It **is** symbolic, but it's more than symbolic. It affects the outcome.

Now what's important about the Tobin Tax is that it also is a part of the Tobin Tax proposal that the money raise from the revenue be used for the financing of public goods. That's more than symbolic. It recognizes in that stable position : we need collective action on a global level. And if we're gonna have collective action on a global level, we need resources. We need resources for development, resources to help the poor, to attack poverty, to affect health issues, to affect global environment issues. We don't have those today.

And so the Tobin Tax is doing two things at the same time: it's providing the basis for revenues to attack these very important public needs at the global level - and it's trying to address the imbalance associated with the free mobility of capital that has brought such devastation around the world.

Moderator: Well, I think that supporters of the tax actually say that it can only be part of the whole mechanism - on its own it won't do very much because as you said there are too many loop holes where capital can flow - but in your opinion, would Europe be a big enough entity to start?

Stiglitz: Oh yes! I think my perspective on it is that unlike taxing good things even if it doesn't succeed in greatly stabilizing financial markets, it's taxing something that is not gonna do any harm. You know if you discourage some of this speculative activity the world is not gonna be a worse place. Global efficiency would not be adversely affected.

What I think Europe has to worry about though even if it can't get broader cooperation is that the transactions migrate off shore, off of Europe. And it is therefore important as part of the process to make sure that it is a tax up all the transactions of European residents no matter where they occur.

It has to be a European residents' tax no matter where they occur. That's very different from what the basis of all the taxation that currently occurs in Europe. So that's why I say the key issue is: can you implement it? I think that's a technical issue.

Moderator: technical or political?

Stiglitz: Well, technical and political. Can you design something that can insure that it's not circumvented? My main reservations are that there are some very difficult problems with implementation particularly associated with derivatives and options. I think those can be overcome. I think we need a little bit more study. People in the financial market are very creative in circumventing taxes. When I was in the White House, I saw this.

I don't want a tax that's just symbolic. I want a tax that works.

Moderator: Is it time for a shift of paradigm again after for the last but 20 years so you've seen the priority of economy over politics? Is it time for politics to take over again in shaping our society? Do we need a moral earthquake?

Stiglitz: I think we need to incorporate a broader sense of values in all of our decisions. I think some of the political decisions that are going on in the United States are not driven by economics, but also are lack in my mind, a sense of moral values concerned about Civil Rights. So it's not just economic decisions, but I think a broader range of decisions.

But as an economist my concern is not that's been economics over politics, it's been a particular perspective on economics that it's not ground on economics science. So if something's selling itself as

economics, but not really economics. It's ideology. It's religion. So in my mind it'd be a big step forward if we started in having more economic science involved in the decisions. And economic science emphasizes trade offs, economic science recognizes that some policies help one group, and some help another. It recognizes that we want to analyze the risks and the costs and benefits and economic science says it's up to the political process to make the decisions once we understand these trade offs.

So economics does give deference to politics when it's done right. Unfortunately, the ideology that is sold in the name of economics has subverted economic principles and try to say that there's only one way. And it's not even a way that's supported by economic science.

Moderator: So you support the idea that the man in the street actually starts dealing and getting interested in economic science?

Stiglitz: Oh, very much, very much so. And I think that many of these issues are ones that we can understand. I don't think it requires a PHD to understand that when economy is going into a downturn, if you cut back on expenditures it reduces the demands and that makes the downturn deeper.

Moderator: I felt - I may be wrong - that you may have some reservations against these social movements?

Stiglitz: No... I think that they are performing a very important function in calling attention to these very very important issues which have not got the attention they deserve and which affect the lives of billions and billions of people around the world. I cannot say how much, you know, how valuable what they have done.

Now we began our conversation by my saying that I believe in democratic discussion. Some of these issues are complicated issues and I'm very much believing in economic science. I believe that you have to look at the evidence. In terms of values, in terms of what I'm concerned about, I'm very much in sympathy. I want a more democratic global environment, I want one that helps the poor countries and I want to help the poor people in the developing countries and worry about the environment. I think in terms of values, we are a 100 % in agreement.

Obviously, coming as an economist, I have a greater sensitivity to looking at the evidence and looking at some of the practicable details and seeing whether things will actually work.

You know, just hoping that they will work is not enough.