

Hong Kong Trade Development Council

17 November 2011 Interview Transcript:

Joseph E Stiglitz (from New York),

Professor, Columbia University,

Interviewer: Martin Evan-Jones, Hong Kong Trade Development Council

1. There are many worries over Western economies with their debt mountains that no-one is going to escape from anytime soon. This is an intractable problem, isn't it?

"Well, I don't think that actually the debt problem in the United States is the major problem in the United States. Remember just 10 years ago, we actually had a surplus that was so great that the worry was we were going to pay back the entire national debt. In ten short years, we went from these very large surpluses to very large deficits, so my mind is actually not that difficult to reverse that. Europe's debt-GDP ratio is actually lower than that of the United States. But obviously the Europe framework is very problematic."

2. You were a creator of the theory of the "Economics of Information". Given the question marks over the Eurozone's stability and US recovery, is the theory of asymmetric knowledge bases actually illustrated in today's global economy?

"Yes, and you see a playing-on for instance right now in the fact that there is so much uncertainty about the financial status of the banks, the banks in Europe, the banks in America the extent to which they are intertwined, we saw that problem back in 2008 where the interlinking of the banks virtually brought down the whole financial system and the economies of the west. There was a hope that in the aftermath of that, we would increase transparency, not get perfect information, but at least improve the information so we could see more clearly what was going on. Unfortunately the banks resisted and we are very much in the state that we were before, a little bit better, but (not a great deal of certainty) about exactly how fragile our financial system is."

3. How would you guide analysts? What have we to look forward to?

"Well, I think we can look forward to a lot of turbulence. I think that

unfortunately the austerity that has been undertaken in the United States and Europe, partly response to the, I think to some extent, unnecessary anxieties about the debt, particularly in the United States, is going to mean that the economies is going to be weaker and because economies are weaker, tax revenue is going to be lower, there is going to be a lot of disappointment about the improvement in the fiscal stance of the country. And when those numbers come in, markets are going to be disappointed and there will still be more turmoil.”

4. As a critic of global management and free market forces, do you have sympathy for the “Occupy Wall Street” movement?

“I do have a lot of sympathy for them. You know, protest movements like that are ... a reflection of frustration. It’s a belief that the electoral process hasn’t worked in the way it should. What they are saying is that something is going wrong with the things are going. I think they are absolutely right, you know, market economies are supposed to provide jobs for those who work hard, study hard. (But) youth unemployment very high, and prospects do not look very good. But also they are very concerned with is the apparent inequities. The banks were largely responsible for bringing on the crisis. And yet the bankers are the only people that seem to be doing very well, the government gave them hundreds of billions of dollars, (gave) ordinary citizens very little help with their mortgages. While the taxpayers turned all over this money to the banks. They are now left with cutbacks of public services, with job prospects that are bleak and real wages that are staggered going down.”

5. Is it reasonable to say that market capitalism now has no answers for developed societies?

“Well, I think the forces of market capitalism are still very positive when they are directed in the right way. The problem is that markets have to be governed, markets have to be regulated. And in the years before the crisis, the banks, you might say “bought” through their campaign contributions, lobbying and so forth, deregulation, the wealthy bought a system of taxes that most Americans think is unjustified, unfair where speculators are taxed at much lower rates than people who work for a living, and that doesn’t make any sense. And that’s what people are bridleing over. If you can get a market to work in a way it’s supposed to work, then yes, then capitalism can actually deliver. But in the

recent years, capitalism, market economy has not been delivering for most Americans. Just to give you some numbers, the medium-income people, person in the middle, income today is the same as it was in 1997. It has been almost a decade and a half of stagnation. But if you look at a full-time male worker, his income is comparable to what it was in 1978, that is to say that is more than three decades of stagnation. Obviously something is not working right, and the benefits of the growth have not been shared to the point where that most Americans are actually getting worse off year after year.”

6. A very different model has been followed in China. How would you assess its “report card” after three decades of opening up?

“Oh very much so! I mean, just looking at the numbers, you have to say, China has not only managed to grow at an extraordinary rate, close to 10 per cent over 30 years, but ... at least much of benefit, or some of the benefit has gone to the bottom, hundreds of millions have moved out of poverty. At the same time, one have to recognise there has not been growing inequality. The benefits of that growth have not been shared by all citizens in the same way, and that’s going to be one of the real challenges to China as it moves more into, as you might say, a market economy. Market economies often are highly in-egalitarian, and one of the frameworks that is often talked about in China is a harmonious society, how do you reconcile the inequalities that the markets often throw up with creating a harmonious society?”

7. Would you agree that the relationship between China and the US is fundamental to international trade...but it looks as if there going to be continual collisions of their respective trade priorities?

“That’s right, and I think one of the challenges for the United States and to some extent, for China, is to come to grips with the new global economic balance in power. In the years after followed the fall of the Berlin Wall, there was only the dominant economy, which was the United States. Now within a short span of time, China is already the second largest economy and the projections are well within the decade, that would probably be equal in size with the United States. Per capita income will still be much lower ... would be what they call “a moderate prosperous economy,” still long way to grow to have the per capita income the same. But what that means is that the United States will not be in the kind of position that it was for a long time to dictate the

international rules of the game. The United States will not be in the position to lecture other countries about how they should run their economies. After the aftermath of the great recession, the credibility of the United States giving those lectures is obviously much diminished. So we are going to have a new global landscape, I think it will probably be a good thing for global economic stability, global economic prosperity.”

8. As an aside I'd like to explore with you the implications of the Trans Pacific Partnership, introduced by the US and collecting eight other countries around the Pacific with Japan but no China. Can the initiative be successful in this formation?

“I actually have a lot of other reservations about the TPP, because I have reservations about some of the US free trade agreements as they are called. They are really not free trade agreements, they are managed trade agreements. And they are managed free trade agreements for special interests in the United States. The intellectual property frameworks, for instance, often deny access to medicine to poor people; very important for emerging markets to have access to knowledge, they often restrain access to knowledge; many people in academia worry about how our intellectual property regime is actually counterproductive for innovation, for academic development of ideas. So what worries me is that the TPP has been discussed to a very large extent in secret without the kind of democratic discussion of the particular provisions. The result is, quite frankly, there is a lot of anxiety inside the United States, among those who are concerned about issues that I raise, about development, about health, about intellectual property, about whether it is going to be a balanced agreement or one which reflects the special interests of some of our business interests.

But other question that you raised is obviously that, over the long run, the framework that we ought to be going forward on is a multilateral trade framework. I've been very concerned about these bilateral or regional trade agreements because actually they lead to fragmenting the global trading regime. Economists talk about the extent to which there is trade diversion rather than trade creation. So I would be much happier if we engage in efforts to expand the multilateral framework rather than having one group versus other group within this global community in the way that the TPP seems to be going.”

9. How would you see Hong Kong's role in the trade relationships that are emerging?

“Well, as you know, Hong Kong has long been the gateway to China. It's been an important interface between the mainland and the United States. It's been a financial centre and I think it would continue to play that role, but obviously in a more complicated way as, for instance, other financial centres develop in China, as other gateways open up. But I think it will continue to be a place where, you might say, the East and the West get together and come to a better understanding to each other.”

10. You're attending the Asian Financial Forum, whose theme is: “Asia: driving sustainable growth”. To what extent is the Asian growth engine a sustainable one?

“Well, I think it's sustainable, in a way what's happened is that Asia has succeeded in creating a strong domestic economy. The middle class, for instance, in both India and China, other countries in Asia, have been growing very rapidly. It is (said that) there are more middle class Chinese now than Americans altogether. For a long time, China was very dependent on export, the model was export-led growth, and exports are still going to be important. But there is, there has been a process of shifting away from this dependence on exports, it was the key plank of the 11th five-year plan and it has been re-emphasized in the 12th five-year plan. And rightly so; I think the global financial crisis of 2008 has really accelerated that movement. There are huge opportunities for the development of domestic demand in China, both consumption and perhaps even more important: investment. Investments in the cities, people who have been moving from rural areas to the cities, but many of cities still need large investments to make them more livable, parks, public transportation systems and so forth. So there is a real basis for sustained development in China based on the needs and the resources that China has.”

11. Are you looking forward to the Forum?

“Very much looking forward to coming to Hong Kong.” (ENDS)