

Celebrating the 20th Anniversary of University of Macau

DISTINGUISHED LECTURE SERIES



2001 NOBEL LAUREATE IN ECONOMICS

His first public lecture in Asia after receiving the Nobel Prize

Lessons from the
FINANCIAL CRISIS IN ASIA

Joseph Stiglitz

- Former Chief Economist of the World Bank
- Former Chairman of the President's Council of Economic Advisors, USA
- Joint Chaired Professor of Economics, International & Public Affairs, and Business, Columbia University



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Venue: CULTURAL CENTRE, UNIVERSITY OF MACAU



澳門大學
UNIVERSIDADE DE MACAU

University of Macau
Conferment of Degree of Doctor of Social Sciences, *honoris causa*

A Citation

Joseph E. Stiglitz, PhD, Nobel Laureate in Economics

Your Excellency the Chief Executive of Macao SAR and
the Chancellor of the University of Macau, Mr. Ho Hau Wah,
Professor Joseph E. Stiglitz,
Rector Iu Vai Pan,
Distinguished guests, colleagues and students,
Ladies and Gentlemen,

One of the essential aspects of a modern economy has been the reliance on market mechanism. Economists make every effort to advance our understanding of how market mechanism works in our society to improve our livelihood. A key component of the well-functioning market mechanism is information. Conventional assumption treated information as a constant in any given framework. Together with other economists, Professor Joseph E. Stiglitz pioneered research on problems in a market where information is *asymmetric* – the situation where some economic agents know more than the others.

Raised in Indiana, Professor Stiglitz earned his Bachelor of Arts degree from Amherst College in 1964, his Ph.D. from the Massachusetts Institute of Technology (MIT) in 1967, and was a Fulbright Scholar and Tapp Junior Research Fellow at Cambridge University in 1970. Currently, he holds joint professorship at Columbia University's Economics Department, School of International and Public Affairs, and its Business School. As an academic, Professor Stiglitz helped create a new branch of economics—"The Economics of Information"—which has been widely applied throughout the economics discipline. His paper, co-authored with Rothschild, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information" remains a classic one for understanding markets with asymmetric information. To quote the Nobel Prize presentation speech by Jörgen W. Weibull of the Royal Swedish Academy of Sciences:

"Together with Michael Rothschild, Joseph Stiglitz provided a natural complement to Akerlof's and Spence's analyses. Rothschild and Stiglitz asked what less informed agents can do to improve their lot. They showed how and when less informed economic agents extract information from better informed agents on the other side of the market by offering a whole menu of contracts. Like market signaling, such "screening by self-selection" promotes mutually beneficial transactions otherwise rendered unfeasible by adverse selection. A prime example can be found in insurance, where companies usually offer alternative contracts, where higher deductibles may be traded off against lower premiums. In this way, their clients are, by their own

choice of contract, effectively divided into distinct risk classes. Low-risk clients typically pay a lower premium, but have to accept a relatively high deductible, which is needed for high-risk clients

not to choose this option. Stiglitz has also studied the consequences and economic policy implications of asymmetric information in a host of other markets. In particular, he has analyzed credit markets, financial markets, and labor markets, and, along with Akerlof, pioneered much of modern development economics."

Analysis of such equilibrating mechanisms amid information asymmetry is now a standard component of microeconomic theory, and has been applied to markets of all types. The so-called Grossman-Stiglitz paradox states that if a market were informationally efficient, i.e., with all relevant information already incorporated into market prices, no economic agent would have incentive to seek information. However, if

everyone were uninformed and, then some agents become informed, an informationally efficient equilibrium would not exist.

Professor Stiglitz has also proposed an explanation of involuntary unemployment. In a labour market model with efficiency wages, an employer is assumed to have random surveys among his employees to observe their work effort. A worker caught shirking is fired and ends up with his reservation wages (the wage which makes him indifferent between remaining on the job and quitting), but at a level lower than if he had refrained from shirking and instead kept his job at the prevailing wage. If both employers and employees are in optimal behaviour, there will be equilibrium unemployment. This model is vital to the development of labour economics and macroeconomics.

In modern development economics, Professor Stiglitz has made significant contributions. Economic incentives under asymmetric information have important explanatory values in analyzing market conditions and institutions in developing countries. His first study of informational asymmetries on sharecropping shows that an optimal contract (between landlord and tenant, for instance) hits a balance between risk sharing and incentive to work, leading to the tenants assuming partial share of the risk. Professor Stiglitz also has made important contributions to public economics (especially the theory of optimal taxation), industrial organization and the economics of natural resources.

In addition to his vast academic achievements, Professor Stiglitz has been extraordinarily active in many public domains. He has served on the executive committee of the American Economic Association from 1979 and as its Vice President. He is also the Founding Editor of the American Economic Association's *Journal of Economic Perspectives*, a journal designed to make economic ideas both more accessible and more relevant to the public. He has served as editor and on the editorial boards of a large number of other economics journals. In addition, he is member or advisor on the boards of a number of national and international organizations, including those in South Korea and Kazakhstan.

Professor Stiglitz has a reputation as one of the leading economic educators. He taught the introductory Principles of Economics course as well as graduate courses in macroeconomics, microeconomics, the economics of the public sector, financial economics, and the economics of organizations at Stanford University. His textbooks have been translated into more than a dozen languages, and have sold more than 100,000 copies in China alone. Many of his former Ph.D. students now teach at universities throughout the world, including the President of Yale, the Dean of Stanford University, the past Chairman of the Council of Economic Advisers, and Chief Economists of the Federal Communications Commission and the Department of Justice. Professor Stiglitz has

also served on the American Economic Association's Commission on Graduate Education in Economics.

During his tenure at the US Council of Economic Advisors, Professor Stiglitz was a key member of President Clinton's economic team, where he was involved not only in macroeconomic, but also in microeconomic and international policymaking. He was a leader in the Administration's "reinventing government" efforts, including the proposals for pension simplification, corporatization of the air traffic control system, the Department of Housing and Urban Development reorganization in US, a comprehensive natural disaster policy, new treasury securities (indexed bonds), and reform of telecommunications, banking, and environmental regulations.

At the World Bank, Professor Stiglitz spearheaded efforts to reassess development strategies, with manifested changes in the Bank's development policies and its aid strategies. Amongst these accomplishments were, the move away from the dominated Washington consensus policies to a more balanced view of the role of state, an increased emphasis on the role of knowledge in development, an increased concern for equality and the interrelations between equality and growth, and an increased awareness of the importance of imperfections in competition, information, and markets more generally.

His academic accomplishments have been nationally and internationally acclaimed. He has been a fellow of the National Academy of Sciences, the American Academy of Arts and Sciences, The Econometric Society, the American Philosophical Society, and Corresponding Fellow of the British Academy. As for the awards and honorary degrees, Professor Stiglitz is the recipient of the Italian Academia Lincei's Internatinal Prize, the French UAP's Scientific Prize, and the German Recktenwald Prize. In 1979, the American Economic Association awarded Professor Stiglitz its biennial John Bates Clark Award, which is given to the economist under 40 who has made the most significant contributions to economics. His award citation reads in part: "Professor Stiglitz is beyond compare among younger economists for the range and variety of his theoretical achievements, as well as for their vigor and their liveliness. From growth and capital to the economics of discrimination, from public finance to corporate finance, from information to uncertainty, from competitive equilibrium with exhaustible resources to monopolistic competition and product diversity, contemporary economic theory is crisscrossed with his footprints."

More notably, of course, Professor Stiglitz was awarded the 2001 Nobel Prize in Economics. He was praised for, among his many contributions in economics, showing how and when less informed economic agents can improve their outcome by way of screening the informed agents in the market. "[the recipients's] work transformed the way economists think about the functioning of markets. The analytical methods .. suggested have been applied to explain many social and economic institutions, especially different types of contracts."

Such awards signal the respect accorded to Professor Stiglitz's research and publications by global academia. His contributions have opened up new fields and perfected the earlier results of others, besides inspiring new endeavors by his colleagues. Your Excellency the Chancellor, I thus have the privilege to present Professor Joseph E. Stiglitz, Nobel Laureate in Economics, for the award of the degree of Doctor of Social Sciences, *honoris causa*.

About the Speaker

Awarded the Nobel Prize in Economics in 2001, Joseph E. Stiglitz holds joint professorships at Columbia University's Economics Department, School of International and Public Affairs, and its Business School. From 1997 to 2000, he served as the World Bank's Senior Vice President for Development Economics and Chief Economist. From 1993 to 1997, Dr. Stiglitz was a member and then the Chairman of the President's Council of Economic Advisers and a member of the President's cabinet.

As an academic, Dr. Stiglitz helped create a new branch of economics—"The Economics of Information"—which has been widely applied throughout the discipline. Dr. Stiglitz helped pioneer pivotal concepts such as theories of adverse selection and moral hazard, which have now become the standard tools of policy analysts as well as economic theorists. His academic contribution covers many sub-fields, including development economics, public sector economics, international economics and monetary economics.

About the Lecture

The lecture titled *Lessons from the Financial Crisis in Asia* will review this economic downturn and its aftermath. Dr. Stiglitz will examine the mistaken policies that helped to bring on the Asian Crisis, such as rapid capital market liberalization. Once the crisis began it was exacerbated in some countries by excessively tight fiscal and monetary policies, as well as other measures. The 1997 crisis has caused a global rethinking of the Washington Consensus and has led to calls for reform of international financial institutions as well as the international financial architecture. He will reconsider the role of government in light of the changing structure of the economy and the processes of globalization and devolution, and share his insights into the world economy after the tragedy of September 11. His abundant experience in the World Bank and his current work project on the Initiative for Policy Dialogue are valuable for a new understanding of the crisis.

About the Distinguished Lecture Series at UM

The *Distinguished Lecture Series (DLS)* aims to promote international dialogue / exchange and to disseminate and publicize outstanding academic research findings by inviting first class scholars from all over the world. It has a pan-social science focus, concentrated on the issues related all disciplines such as political science, economics, sociology, geography, history and others. It serves the function of enhancing understanding of and insight into the contemporary social sciences.

The *DLS* is based on the Social Science section (Economics, Contemporary China Studies, Government and Public Administration) of the Faculty of Social Sciences & Humanities, University of Macau.