NOT THE ECONOMIST HE USED TO BE

World view. Joseph Stiglitz is a high-profile critic of capitalism, but he has shifted positions on big questions, writes Aaron Patrick.

First the the Nobel Prize. Now the Sydney Peace Prize. Dr Joseph Stiglitz of Columbia University received yet another accolade last week. The Sydney Peace Foundation added the economist to its list of Australian and international celebrities recognised for their contribution to the greater good.

Stiglitz was cited “for leading a global conversation about the crisis caused by economic inequality”. His positions on trade, the minimum wage and the danger of big tech companies were quoted uncritically in the national media.

His work on information asymmetries in the 1970s made a major contribution to explaining weaknesses in the free market.

These days, Stiglitz is much admired for what he opposes and less known for what he stands for. In an era where big business and free markets are in retreat, his economic credentials and outspokenness have made him one of the world’s most-cited critics of capitalism.

Few fans realise that Stiglitz has shifted positions in his career on important economic questions, and lent his credibility to damaging economic interventions.

In the Sydney Morning Herald last week he criticised reductions in Sunday penalty rates, and said employees’ bargaining power had been “eviscerated”. In a 1993 textbook, Economics, Stiglitz advanced the common view that paying unskilled workers too much prices them out of jobs. “If the government attempts to raise the minimum wage higher than the equilibrium wage, the demand for workers will be reduced and the wage higher than the equilibrium wage,” he wrote.

The argument pushed by Stiglitz then, and countless economists since, convinced the Fair Work Commission last year, led by a Labor appointee, to make modest reductions in weekend and public holiday penalty rates for some services industry workers.

Although wages have been weak in recent years, growth accelerated to 2.3 per cent in the year ended September 30, driven by the biggest increases in workplace deals since the third quarter of 2015.

Other examples show how Stiglitz’s positions have become more populist. Two months ago, promoting an anti-globalisation book, Stiglitz attacked the Republicans’ plan to repeal inheritance taxes on the rich. “The Republican Party is coming out on the side of the very, very wealthy,” he told the Herald.

In a 1981 academic paper that explored why the effect of taxation policy is sometimes counter-intuitive, Stiglitz argued against inheritance taxes. “Many of the policies aimed at reducing inequality may, in the end, lead to an increase in inequality,” he wrote. “For instance, inheritance taxes and interest income taxes may increase the inequality of wealth.”

Stiglitz’s Australian trip was co-sponsored by the Australia Institute, an influential critic of conventional economic policy. The think-tank saw Stiglitz’s celebrity as an effective marketing tool. His views could add credibility to its own anti-markets and anti-free trade agenda.

“How great is this?” one of the institute’s leaders, Jim Stanford, said in a promotional video. “Professor Joseph Stiglitz is coming to Australia to receive the Sydney Peace Prize. He’s one of the greatest economists on the planet.”

The prize ceremony was held at Sydney Town Hall. Even ABC economics correspondent Emma Alberici was invited on to the stage.

Stiglitz learnt how to build a reputation by challenging powerful institutions – from inside. As chief economist at the World Bank in the late 1990s, under its Australian president, James Wolfensohn, Stiglitz attacked many of the bank’s programs, and its sister institution, the IMF. Eventually he resigned. But not until after burning his own organisation’s reputation, and its attempts to make near-bankrupt states adopt more prudent economic, social and legal policies.

“When it comes to practical policy Mr Stiglitz is, more often than not, the kind of economist who is better at saying what we don’t know than what we do,” The Economist magazine wrote at the time. Stiglitz’s greatest misstep may have been his support for Venezuelan dictator Hugo Chavez. In a 2006 book, Making Globalization Work, he joined in the global cheerleading for Chavez’s heavy intervention in the economy, fuelled by oil riches. Chavez’s government aimed “for economic policies that not only bring higher growth but also ensure that the fruits of the growth are more widely shared”, he declared.

A year later, at a conference in Caracas, he praised Venezuela’s growth rate as “very impressive” and said “President Hugo Chavez appears to have had success in bringing health and education to the people in the poor neighbourhoods of Caracas.”

Today, of course, Venezuela is near economic collapse, propped up by an oppressive state and riven by violence, and hyperinflation. Three million citizens have fled since 2015, according to the UN.

Stiglitz critics say his scepticism towards free markets isn’t matched by an acknowledgment of the limitations of government action. “He rose to distinction with research on the nature of ‘market failure’ while giving scant attention to the failures of government, the intervention of which he usually advances as a needed remedy,” US journalist Gene Epstein recently wrote in City Journal, a publication of a conservative think-tank, the Manhattan Institute for Policy Research.

The morning after receiving his prize in Sydney, Stiglitz riled on big companies, which he said were exploiting technology to abuse their market power, and how globalisation drives down wages and weakens unions in developed economies.

“Real wages are going down because of market power of firms; nominal wages are going down because of weakening power of workers; and you get more and more inequality,” he said at a Sydney University seminar.

The two events demonstrated the breadth of Stiglitz’s enduring popularity: from political activists to serious economists.

The “peace” prize was awarded by the left-wing Sydney mayor, Clover Moore, to a standing ovation. The university seminar was hosted by Dr Alexandra Heath, the head of economic analysis at the Reserve Bank of Australia.

A 2020 change in the US presidency could place Stiglitz inside the White House. He shared Democrat Senator Elizabeth Warren’s hostility towards the Trans-Pacific Partnership trade agreement, which Australia happily signed in Chile eight months ago, without the US.

He has been handing out advice to the Democrat Party, which can be summed up as: Do what I say.
Joseph Stiglitz, left, wrote of his support for the policies of Venezuelan dictator Hugo Chavez.

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