[00:00:18]

Prof. Chapman: Wow. I am Bruce Chapman. I am from the Crawford School of Public Policy. Thank you so much for coming tonight. This is a very, very special gig from the Crawford School. This is a Crawford Oration. It is the most important public event that we do. I will be chairing tonight's event as a representative of Professor Tom Kompas, our Director, who apologises for not being here tonight.

I start with the Welcome to Country. We acknowledge and celebrate the First Australians on whose traditional lands we meet and pay our respects to the elders of the Ngunnawal people past and present.

We are very pleased you are here and this crowd and this group and the enthusiasm for this event has been extraordinary. It was within a few hours that we reached 1,500 registrations with the capacity of 1,300 and I think it says something strong and profound about the hunger and interest for intelligent and informed and clear public policy.

Tonight we have our favourite of a guest, Professor Joseph Stiglitz. He is visiting Australia as part of the Economic Society Eminent Speaker series and Crawford School is the major national sponsor. I would like to acknowledge the ANU Public Policy Fellows and distinguished guests in attendance today and note a message from Tom Kompas which is the following: “At Crawford School we strive to lead and shape today's public policy debates through research, professional education and policy engagement. Today's lecture is an excellent example of the types of events that we conduct to spur public debate and initiate important discussions [?? 00:02:24] Australia as well as the global community.”

Just a couple of points, very quickly, about Crawford and our mission and our institutions. We have a quarterly magazine known as *Advance* and the flagship journal *Asia and the Pacific Policy Studies.* The journal is supported by the Asia and Pacific Policy Society and works to position research on the region within the mainstream of public policy. I have been instructed to say that if you are not already a member of the Society, you are highly encouraged to sign up. Membership is free, apart from the time it takes, and available to anyone who would like to be part of the growing public community and public policy community in our region.

Again, thank you so much for coming. I think this event will be very, very special. It is now my pleasure to hand over to Professor Marnie Hughes-Warrington, the Deputy Vice-Chancellor of the Australian National University, who will introduce our speaker. Thank you.

Prof. H.-Warrington: Thank you Bruce. Your Excellencies, ladies and gentlemen, it is my great pleasure to introduce Professor Joseph Stiglitz, multiple Noble laureate, to speak tonight on the global financial crisis. Professor Stiglitz is widely recognised as one of the world's leading economists. He is a university Professor at Columbia University, New York, having previously taught at Ulcers, Oxford, Yale, MIT, Stanford and Princeton.

Professor Stiglitz was the recipient of the 2001 Nobel Prize in Economics for his analysis of markets with asymmetric information and he was a lead author of the 1995 Report on the Intergovernmental Panel on Climate Change which shared the Nobel Peace Prize. I asked him before whether he has worked out his fraction of the Peace Prize and he said there is no algorithm as yet.

Audience: [laughter]

Prof. H.-Warrington: Professor Stiglitz has also held many noteworthy positions including Chairman of the Council of Economic Advisers during the Clinton Administration and Senior Vice President of the World Bank. In 2009 Professor Stiglitz was appointed by the President of the United Nations General Assembly to chair the Commission of Experts on Reforms of the International Financial and Monetary System.

In 2011 Times named Professor Stiglitz as one of the most 100 influential people in the world. He is now serving as President of the International Economic Association. Tonight we are greatly honoured to have him with us to share his thoughts on the global financial crisis, to review the circumstances around the collapse of the global economy in 2008 and to look at whether the crisis has really been averted.

Professor Stiglitz will speak for about 30 minutes or a bit more and then we will take questions, moderated by Professor Bruce Chapman for the final time. Please, join me in warmly welcoming Professor Joseph Stiglitz.

Prof. Stiglitz: Well, it's sure a pleasure to be here again. The last visit to Australia I learned that you are not supposed to call it the Global Financial Crisis but the North Atlantic Financial Crisis.

Audience: [laughter]

Prof. Stiglitz: And the reason, of course, is that your Government responded to the events of 2008 with very strong measures which enabled Australia to avoid participating in the Global Financial Crisis. It didn't hit Australia and China and a number of other countries also avoided the Global Financial Crisis.

What I am going to talk about is some of the lessons that we have learned from the Global Financial Crisis, trying to explain why it is that six years after the crisis, seven years after the bubble broke that led to the crisis, the United States and Europe are really not back to health. I will describe a little bit the state of our economies and try to extract from that some lessons not only for economic policy but for the way we think about the economy.

As most of you know, the crisis that began in 2008 is the worst crisis that we have had in more than three quarters of a century and the economics profession as a whole - and the economic models which central banks and governments use - did not predict the crisis. Far worse than that: the models said it could not happen. The models that were used commonly by economists, as I say, by central banks, argued that markets were efficient and more stable and, obviously, efficient markets do not have bubbles.

But obviously those models were wrong and one of the things that should have come out of the crisis is rethinking of those models and an attempt to understand why they were wrong and how we can make them better. Just to give you one example: a central focus of most central banks was un-inflation. Some central banks like European Central Bank had a mandate to focus only on inflation and the idea was very simple.

The view was that keeping inflation well and stable was necessary and almost efficient for assuring economic prosperity because the view was that if the government did that then markets would take care of everything else. With that in mind, central bankers in the United States and Europe allowed a bubble to develop. They paid focusing just on inflation and they said: "Don't worry about these bubbles." They argued that you could not tell a bubble until after it broke and that the cost of fixing the bubble was less than the cost of interfering with the wonders of the marketplace.

We now understand that that was wrong, that a single-minded focus on inflation was not sufficient to protect the economy. The losses from inflation were miniscule compared to the losses that we've incurred as a result of the crisis and central banks in most parts of the world have shifted. In the United States we focus now on employment, growth, inflation and financial stability.

The underlined micro-economics was well understood well before the crisis. The idea, the fundamental idea, that the advocates of this view and the view that markets are necessarily efficient and stable, go back to Adam Smith: Adam Smith's idea of an invisible hand. An invisible hand - the idea was that individuals in the pursuit of profits and the wrong self-interest would be led as if by an invisible hand to outcomes that would maximise the wellbeing of society as a whole.

Well, now we understand - and research that I had done had shown - that the reason that the invisible hand often seemed invisible was that it wasn't there--

Audience: [laughter]

Prof. Stiglitz: --that whenever there were imperfections of information, asymmetry of information, incomplete risk markets that is always--; There are market failures which systematically lead to economic inefficiencies. And there are still governments that still don't understand this and they still believe that markets on their own are efficient, in spite of the fact that there are, historically, over 200 years of examples of market failures and some of them, like this recent crisis, on a dramatic scale.

I don't think anybody should or would claim that the pursuit of self-interest which is also called greed on the part of bankers led to the wellbeing of our society. It led to a global calamity. The central bankers who were well informed about economics, perhaps were as vulnerable to these [?? 00:11:56] as those who were not.

Ben Bernanke, after the crisis, went so far as to say there was nothing wrong with the models that were used - just the implementation but I think he was fundamentally wrong. In fact, he was so wrong that--; so mislead by the models that even after the bubble broke, he was asked: will it have effects on the economy? and he said no, we've diversified risk; we spread risk in such a way that our economy is protected and more stable.

Now even the logic of that should have been obviously wrong--; clear that it was wrong. Just think about it: if you have a disease, if somebody, say, arrived in New York - 50 people arrived in New York with a disease and you asked 'what are you going to do about these people, all carrying smallpox?' The economists' recommendation - the economists who believe in this idea of diversification - would say: "Let's spread the risk. Let's send two of the people into each of the states around the country--"

Audience: [laughter]

Prof. Stiglitz: "--and that would diversify the risk."

Well, it's obvious that that example shows that underlying their mind--; they have the wrong model. There are some instances where diversification works, but there are some instances where that kind of diversification actually is a disaster. And in this particular case, spreading America's toxic mortgages around the world made what was--; would have been an American disaster into a global disaster. When I go to Europe I always thank the Europeans for actually having engaged in deregulation because they bought some 40% of our toxic mortgages.

Audience: [laughter]

Prof. Stiglitz: If they hadn't done it, the American downturn would have been much worse. So, yes, diversification helped us but it obviously contributed to the Euro crisis which has been very hard.

The flaws in the reasoning of our central bankers, our economic officials, had many dimensions. One was a kind of incoherence. After the crisis, people that I've met always talked about the risk of contagion – contagion is like a contagious disease - but before the crisis they always talked about the benefits of diversification and they never put those two sides of the argument together. And, of course, what they should have realised is that if there is greater interdependence ex ante, there is greater risk of contagion exposed.

Now their ways of dealing with them - in the case of electricity networks - when you make bring electricity networks together, you economise an electrical generating capacity but you have the risk of an outage in one part of the system, shutting down the whole system. In the United States we actually went through that experiment and an outage in a small substation in Ohio brought down the whole East Coast of the United States. Interesting experiment because the population went up nine months later but--

Audience: [laughter]

Prof. Stiglitz: --but in terms of electricity management it wasn't very good.

Well, we know now how to deal with this, we have circuit breakers. The analogous things in economics are capital controls - what we call capital account management techniques. But the IMF and the US

Treasury oppose these very strongly. Finally, they now understand, after the crisis, that those are good things and the IMF, which in 1997 had tried to change its' charter to force countries to liberalise their capital markets and not to have these kinds of controls, now says that they are a good thing. It is an interesting example of where thinking has changed in a dramatic way as a result of the crisis.

Another example of the kind of intellectual incoherence has to do with the discussion that Greenspan did after the crisis. He was asked to testify about what had happened and he said he was surprised. There was a flaw in his reasoning. He thought banks would be able to manage the risk, would have things sent off to manage the risk better. But I was surprised that he was surprised--

Audience: [laughter]

Prof. Stiglitz: --because if you looked at the incentive structures that banks - bank managers had, bank managers had incentives to act in a short-sighted way with excessive risk taking. And if they hadn't behaved badly we would have had to rewrite our micro-economics textbooks.

Well, the good news is that we don't. The one thing you cannot disagree in the incentives matter and their incentives [?? 00:17:44] behave badly and guess what - they behave badly. But the consequence, of course, is that the economy - the global economy, had suffered enormously.

So when it comes to the question of who is to blame for the crisis, obviously, I think the banks have the most to blame. They engaged in excessive risk taking, they engaged in predatory, discriminatory lending, they engaged in a host of really bad practices, market manipulation. I'll come back to it and talk about that a little bit later.

The regulators should have stopped them from doing it. We should understand that there is a history of 200 years of banks behaving this way and why you would think that they suddenly stop behaving badly, was a mystery. The reason, of course, is actually not that hard to understand. After the Great Depression we passed - and most other countries passed - good regulations to stop the bad behaving banks. And it worked. We have 35 years of economic stability: not a serious bank crisis around the world.

And then somehow the idea of--; Because we hadn't had any crises for 35 years, the idea spread that we didn't need regulation, when the reason we didn't have crises was because we have regulation. The idea we didn't need regulation spread and guess what? Since 1980, since the Reagan-Thatcher era, we've had more than 100 financial crises so deregulation worked in the way predicted and worked to create more volatility. And it was only America's financial crisis that was bigger and better than others.

When I'm in Australia I always hear people say we're the biggest and the best but this is a case - and I could give you a couple of others - where America really did a better job.

Audience: [laughter]

Prof. Stiglitz: So I blame first the banks. I blame the regulators secondly because the regulators should have understood this and should have stopped the banks from behaving badly but I also blame economists or, more particularly, other economists.

Audience: [laughter]

Prof. Stiglitz: Because they propagated ideas that both the banks and the regulators used that led them to deregulation, to the kinds of regulatory frameworks, to the kinds of policies that would add to the problems that we had. Well, it's not a surprise, given that the models didn't really have a good conception of what was going on with the economy; couldn't predict the crisis; could not even predict the crisis, as I said, after the bubble broke, but they weren't very good in responding to the crisis.

And the result is that the crisis has been long-lasting. It was hoped that if we acted forcefully in 2008 and 2009 that it would be like other crises: short-lived. It would have been longer than a typical economic fluctuation, but short-lived. But we've had now a half-decade - more than a half-decade - of weak economy: in the United Stated the recession officially began in 2007. We are now in 2014 and nobody would say we're back to health.

I'll describe the numbers very briefly. Europe is even in worse shape. In fact, the only thing that makes America feel good is that things could be worse and when we look at the other side of the Atlantic, we see that they are worse. The fact is that, as I said, at the beginning of the crisis we said we wouldn't make the kind of mistakes that Japan made that led the Japanese, the Malays two decades of slow economic growth but then we proceeded to make mistakes that were even worse than Japan's and, as I said, we have already had more than a half-decade of poor economic performance and no one really thinks that we will be back to normal for a very long time.

One way to think about where we are today is to project back to the Great Depression. The Great Depression began, you might say, officially with the Stock Market crash in 1929. In 1936, some people thought we were getting out of the Great Recession, of the Great Depression. The result of that was that we believed we were getting out was the argument that we ought to cut back on the new deal - mild doses of austerity to get our budget in better shape.

And guess what happened? We went into a double-dip. And we didn't get out of the Great Depression until World War II. It was the Government's spending that got us out of the Great Depression. It would have been great if we had used the Government's spending for investments in people, infrastructure, technology but we didn't have that choice. We had to spend the money on armaments to protect our country but it was the Government's spending we shouldn't forget that. It was the Government spending that got us out of the Great Depression.

Well, right now we've gone seven years into an economic malaise recession in Europe and some parts of Europe are in depression and the only question is: how long will it last? And if we follow the wrong powers here's what some governments are advocating - some powers, some parties are advocating - it could last a very long time. So let me describe briefly where we are and talk just a li--; even more briefly about where Europe is.

If we look at where the growth trend had been, the growth trend begun in, say, 1980. The period after 1980, let me emphasize, was not a period of really strong economic growth. It was markedly slower than the decades after World War II and that in itself is an important lesson. We began deregulating, liberalising all the privatising and that was the period where our growth slowed down. And it was also the period--; The period after World War II was a period of sheer prosperity where every group in our country grew - saw their incomes increase, but the people at the bottom saw their incomes increase the most and since 1980 only the top had seen their incomes grow.

But even looking at that very slow growth after 1980, under the ideas of deregulation and liberalisation and so forth, we are more than 15% below where we would have been have we not had the crisis and the gap is still increasing. So the total loss for the United States is in excess of five trillion dollars. If anybody talks to me about government waste, I say no government has ever wasted resources on the scale at which America's financial, private financial markets have wasted resources.

We still now have almost 20 million Americans who would like a full time job and cannot get it. Now, when I say 20 million, I always feel when I talk about 20 million in China it seems like hardly anybody - when I talk about 20 million in Australia, it sounds like a lot of people.

Audience: [laughter]

Prof. Stiglitz: I think Australians can really understand when I say 20 million - it's like the whole country is wandering around without a job.

Audience: [laughter]

Prof. Stiglitz: Labour--; The only reason your unemployment rate is as low as it is, is that labour-forced participation is lower than it's been more than three decades. This is the lowest expanse since women started entering the labour force. The way we count unemployment is to ask people whether they’re actively looking for a job but so many people have looked and looked for years and years and haven't found a job that they've given up looking. But, of course, they're not employed - it's just that they've given up looking for a job.

If we look at the growth that has occurred in the last seven years after the crisis, 2007, 2008 since then, per person within the working age population, if you look across the events of the countries of the North Atlantic: Europe and America, what you see is only the US and Germany have had any economic growth and that economic growth has been truly paltry. In any other circumstance, it would be considered to be a disaster. In the case of Germany which was looked at as the most successful country in Europe it's under one percent.

But making things even worse is, if you look at how it's distributed, in Germany the bottom 30% have seen their income decline. In the United States, officially the economic downturn was over in 2009 but since 2009, 95% of all the increase in income has gone to the top one percent which means the bottom 99% haven't heard about recovery. And now, increase in inequality was on top of an already high level of inequality.

The result is that today median income in the United States is lower than it was 25 years ago so for people in the middle there's been no increase in income for a quarter of century. And things are worse in some--; many of the demographics, social demographic groups in our country. So one social demographic group that I identify with is American males.

Audience: [laughter]

Prof. Stiglitz: American males have an income that is lower - median income that is lower than it was 40 years ago so if you want to understand why American politics sometimes look strange, why there are a lot of angry people, it's totally understandable: our economy has not been delivering; our market economy has not been delivering in the way it should. That is an important lesson because the countries that have tried to imitate American economic policies have succeeded in getting results similar to America.

Audience: [laughter]

Prof. Stiglitz: And as you debate economic policies here, you should think about that. In Europe, as I say, things are worse. In countries like Spain and Greece, in fact, in most other countries, per capita income just from inflation is lower than it was at the big onset of the crisis. There's been zero economic growth on average, let alone median.

The unemployment rate, on average, in Europe is over 12% but in some countries like Spain it's twice that and if you look at youth unemployment: youth unemployment in Spain is over 50% and in Greece over 60% and GDP is down 25% from what it was in 2008. These countries are in depression. When I was at the World Bank and we described the East Asia Crisis, I was told by the US Treasury officials - I won't name who - not to use the word 'depression' because they said it was depressing.

Audience: [laughter]

Prof. Stiglitz: But that was the only way you could describe what was going on and that's the only way you could describe what is going now on in Spain and Greece. Can you imagine? Graduating from College, worked hard, doing everything right and told your prospects for a job are less than 50%, year after year? And it means that many of them, to give it a really bleak prospect, have to live with their parents—[laughs]

Audience: [laughter]

Prof. Stiglitz: --for years and years, until their 30s. Well, so the question I want to turn to now is: why has the US, and many other countries in Europe, not recovered? And the basic answer is fairly simple: it's a lack of aggregate demand. There are several reasons for this lack of aggregate demand.

What I have already mentioned: austerity; government cut-backs. Even the United States which was not talked about austerity very much has had a mild form of austerity. We have roughly 500,000 fewer public sector employees than we did in 2008 before the crisis. If he had a normal growth with the growth of our population, we'd have some two million more employees. So we've had cut-backs, de facto, of two and a half million.

No wonder with this magnitude of cut-backs the economy is not performing, particularly because we haven't fixed the financial system and so we not only have cut-backs on the public side, we have weaknesses in the private side. But there is a second reason I want to emphasize and I've already hinted that and that's the fact that we have this growing and high level of inequality.

Now how did the inequality affect economic performance? It's actually affected in a large number of ways: it affects long-term economic growth, it affects stability - one of the ways though is a very simple one that those at the top don't spend as much money as those at the bottom. Those at the bottom have no choice and they tend to spend 100% of their income. Those at the top are able to save 10, 15, 20 per cent of their income. And so we have redistribution from the bottom to the top which has been going on in the United States - inequality reached a level not seen since the 1928, right before the Great Recession – we're going to have weak aggregate demand unless the Government and other authorities do something about it.

And Bernanke and Greenspan did something about it: they created a bubble. [laughs] It was a short-term palliative but it was clearly not sustainable. Because of that bubble those at the bottom, 80% of America, were consuming 110% of their income and that enabled the economy to keep going but, as I said, it was not sustainable and, as one of my predecessors, who is the Chairman of the Council of Economic Advisers once said: "That which is not sustainable, won't be sustained."

Audience: [laughter]

Prof. Stiglitz: So this inequality is actually one of the reasons that our economy--; This growing inequality is one of the reasons that our economy is not doing very well. And it's interesting that at one point this might have been viewed as a radical position but today, even the IMF which is not known to be a radical organisation, has said that inequality is bad for economic growth and economic stability.

There is a third reason that there is a lack of aggregate demand - or a fundamental problem in our economy - which is the need for structural transformation. Every economy is constantly needing a structured transformation but the challenges right now are particularly great and, in some ways, are similar to those that faced the economy, the global economy, 80 years ago before the Great Depression.

Then, the structural transformation was a movement from agriculture to manufacturing. We were the victims of our own success. In the 19th century, some 70% of the population had to be engaged in agriculture and related activities in order to produce the food that we needed to survive. Now, say, in the United States, two to three per cents are the workforce produces more food than even an obese population can consume.

Audience: [laughter]

Prof. Stiglitz: That's a great success but it poses a problem. All those people that were working in agriculture have to move somewhere else. And the problem is the markets don't do that kind of structural transformation on their own very well and for obvious reasons that are understandable that when incomes in the agriculture sector go down - and in the United Stated they went down in a period of, say, ‘28 to ‘32 by more than 50% - when incomes go down, people don't have the resources to move to the urban sector, to make investments and in moving and learning new skills that would make their productivity higher in manufacturing to facilitate this kind of structural transformation.

And so, they were trapped in their own sector and our economy was trapped in recess--; depression. And it was, as I said, Government's spending got us out but the Government's spending was actually an industrial policy. It helped our economy move from agriculture to industry. The Government, after World War II, gave everybody in our population free edu--; everybody who had fought in the war - which was essentially everybody - free education; free higher education.

And it was on that basis that we managed to become the industrial power that we were. We're now engaged in another kind of structural transformation but it's even more difficult one: we're going from manufacturing to a service sector economy. It's more difficult because now there are all these global competitors. Global employment in manufacturing is going down but because of changing competitive advantage our share in that declining global employment is going to go down. And that means we have to move into other sectors and among the sectors, as I say, is going to be the service sector - it's going to be the key sector.

But within the service sector, the key areas are going to be education and health. Education and health are two sectors which are, for good reason, largely associated with Government finance. But this is just the time we are cutting back in Government finance so government policy, rather than facilitating the structural transformation, are actually impeding it.

So, in a way, the recession has exacerbated all the problems that led to greater austerity, led to greater inequality and impeded the ability of the government to facilitate the structural transformation. The result of this is that we are experiencing a prolonged economic downturn. Let me put it in one other way that may help crystallise the nature of our problem.

A lot of people, back in 2008 Obama Administration, thought: well we've had a bump, our banks are a little sick - all we need to do is give a few trillion dollars, make them feel better, don't upset the bankers - that would be very bad for our economy because if bankers are not happy, the economy is not going to be happy so we just say: throw money at them, don't scold them too much and put the banks in hospital for 18 months and then the banks will be healthy and we can pick up where we left off in 2007.

So the idea was that we needed a short-term stimulus while the banks were temporarily weak and then, once they get back to health, the economy will pick up. Well, that was obviously a wrong theory. We gave the banks a lot, a lot of money. The banks are healthier - not perfect. The Government is still underwriting over 90% of our mortgages. SME lending - lending to small and medium size enterprises, is still about 20% below the crisis so it's not like we're really back to health but the profits are pretty good: they're paying big dividends, even bigger bonuses.

But our economy is not back to health that should be pretty clear. And the reason it's not back to health was, in 2007 our economy was not well. There were all these problems I've just described: the problem of inequality, the problem of structured transformation and there were some global problems I haven't had time to talk about.

We papered over the problems by a bubble but now that we've taken away the bubble and, hopefully, we won't go back to creating another bubble. If we went back to 2007 without the bubble, we would be a weak economy which is exactly where we are, except our banking system - our financial system, is still not perfectly where it was and inequality has gotten worse and the ability for the Government to deal with the structure transformation has gotten worse and austerity has exacerbated the problem.

So let me to conclude. As I said, the market economy - as it's been functioning in the United States and Western Europe and many other countries - is not working the way it's supposed to. It's not delivering for most citizens. There is a debate going on: is it the loss of economics? Is it inevitable that the market economy should fail in the dramatic way that it has failed - it not just, as I pointed out, it's not just the couple of years that it's not been working well.

Median income for an American is lower than it was 25 years ago - that's a quarter of century of stagnation. Well, my view is that it's not inevitable. These failures of the growth and inequality are not a result of inexorable economic forces. It's a result of politics and policies. There are some countries that have managed to have lower levels of inequality. Scandinavian countries, they have the same laws of economics that apply up in those Northern countries as apply in the United Stated and the UK.

But they've made different political choices and those choices have led to remarkably different outcomes. The Gini coefficient - standard measure of inequality - in Denmark is half of that of Australia and there's even a smaller percentage of that of the United States. And this represents a fundamental change in the way we think about inequality. We used to say: yes, inequality is bad but if we were to get rid of inequality it would reduce our growth, impede our economic performance.

Now we realised that inequality to the extent that it has grown - extremes that it has grown, the amount to which it's grown - actually is imposing a cost. We are paying a high price for this inequality and, as I say, this is a view that is now becoming not just--; becoming a mainstream view - a view that IMF has been advocating.

So the lesson of this is that we ought to be working for shared prosperity, the kind of shared prosperity that the United States had in the decades after World War II. And just let me conclude because I know there are a lot of debates going on in Australia about these economic policies and reiterate what I said before: the countries that are following the American model have wound up with lower economic growth and more inequality and lower economic performance as it should be measured by what happens to the typical citizen, not what happens to Bill Gates or those that are at the very top, but what happens to most citizens.

And I hope that, as one looks back on these experiences of the Global Financial Crisis and what we've learnt in the last seven years that we take to our hearts the lessons that it has taught us and try to create an economic framework that will lead to more stable and more prosperous and more shared economic prosperity. Thank you.

Audience: [applause]

Prof. Chapman: We have about 15 minutes for questions and answers. There will be microphones. There are microphones at the front on either side and at the back so if you could go there if you have a question. There are two principles: please, give us your name and please keep it short.

I'm having trouble seeing out there but do we have a question or comment? Can you go to the microphone, please, that's the problem.

[00:47:00]-[00:47:33]

Question1: Hi, my name is [?name 00:47:33]. I'll keep it short. I wanted to ask a question about university deregulation. Christopher Pyne, our Education Minister, has recently said that we have a lot to learn from the American models of higher education funding and deregulation of that. Ian Young, our Vice-Chancellor, is kind of like the poster boy for deregulation for universities in Australia. I'd like to know what you think about deregulation and whether or not our sector, higher education, is actually going to benefit from it?

[00:48:00]-[00:48:09]

Prof. Stiglitz: Well, first let me emphasize that most, in fact, almost all of the successful universities in the United States are either state-run universities or not-for-profit universities. The private universities, private for-profit do excel in one thing: exploiting poor people.

Audience: [applause]

Prof. Stiglitz: It has been a constant struggle because we've known that they've been engaged in that kind of exploitation for more than two decades. When I was in the Clinton Administration we tried to regulate these for-profit, exploitive universities. And you can seen in terms of the--; It wasn't a very complete deregulation. We said: in order to get government funding for student loans, Pell Grants you had to show that you are graduating students - not a very high demand - that at least maybe 10% of your students graduated and that somebody got a job. [laughs]

Audience: [laughter]

Prof. Stiglitz: The answer was they thought that was an obtrusive regulation. We had a minor regulation that said that 90% of the revenue, no more than 90% of the govern--; of the revenue could come from the Government. So what did they do? They were very good at self-convention. What they'd do is they raised the tuition a little bit, got government money and then used some of the money to give rebates to the students which they called scholarship, so there was no real source of money other than the Government and they were just pretending to give money back, of money that they had overcharged under education.

There is almost universal agreement in the United States, except among the lobbyist for these institutions, that these had been a disaster and they'd been particularly predatory on, as I say, people from poor families, people who were the ones like really most of Americans were--; They've been really predatory against people leading the military. People fought for the country, thought they were serving the country and then they'd come and try to take advantage of these people who are not well-informed about the terrible success records of these schools.

So my view has been the opposite. We ought to be regulating more, not less, and the only thing that is stopping this regulation is the lobbyists for these institutions and it is, really, in the case of the United States, a national shame what has been happening with these for-profit universities.

In the case of - let me just say one other aspect which is a little bit related and that is the financing of education. I talked a lot about how median income has stagnated and is actually lower today than it was 25 years ago, but one of the really sad effects of the crisis was that we had cut-backs in government support - part of austerity was cut-backs in government support of education - and universities had no choice but to raise tuition. Poor Americans were caught in this bind between incomes going down and tuition going up. The only way they could go to school to get a higher education was to borrow.

An average American graduate from college - I know these numbers seem small to you - has a debt of 25-30 thousand dollars. That's the average but many of them have student debts of over $100,000. The banking, the financial industry succeeded in passing a law that said if you borrow money to finance education you could never discharge that, even in bankruptcy, no matter what happens to you and if your parent co-signs the loan, they cannot discharge the debt, even if their kid dies in an accident or from a disease, the parent has to repay the debt. And when I went around the United States talking about my book, The Prize of the Inequality, the most poignant stories were from parents who had gone through this kind of experience.

The result of all this, is that American student debt now is over 1.1 trillion dollars - more than our stude--; all the credit card debt in the country. It's weighing down our economy. Poor Americans face this dilemma: do they take on this huge amount of debt or not get a college education but they know that if they don't get a college education, their lifetime prospects are bleak.

The median income of a young American who doesn't have a college, who's just gone to high school, has been actually plummeting. It's about, I cannot remember the exact numbers, 20-30% below what it was a decade--; two decades ago. And the result of this is, for Americans, a young American's lifetime prospects are more dependent on the income and education of his parents than in other advanced countries and that's because of the way we finance education. And I gather there is some discussion of whether you should follow the American model and I find this strange.

Audience: [laughter][applause]

[00:54:45]-[00:54:50]

Prof. Chapman: I think we'll take a few at a time so let's start with two from there and two from there and then we'll get Joe to respond collectible to the collection, thank you.

[00:55:05]-[00:55:18]

Question 2: In the current political system, most of the solutions you recommend, the way I understand them, are of political suicide. For example, that the very Government in Australia were applauded by you and others and others for avoiding the crisis was toppled and we are now in going backwards on those recommendations, so what's your solution for that other than maybe letting evolution lead to a revolution?

Audience: [laughter]

[00:55:47]-[00:55:54]

Question 3: Yes. Professor Stiglitz, you mentioned the inability during the financial crisis for regulators and, I assume, policy advisors, too to understand what was actually going on within markets. I wonder to what extent do you believe now that those regulators and policy advisors have learnt those lessons and I'm thinking particularly about the advent of things like dark pools and high-speed trading, some of those more opaque things which are going at the moment?

Prof. Stiglitz: I think the answer, obviously, is different policy makers have been better at learning the lessons. Some of that is related to how close they are to Wall Street. For instance, one of the major problems, I think, that is associated with the crisis was the problem of 'too big to fail' banks. If the banks are too big to fail, they know that undertaking risk is a one-way bet: if they win, they kept the profits, if they lose the public picks up the losses.

Some policy makers like Mervyn King in the UK, the Head of the Central Bank there, has argued very strongly that if you've picked too big to fail, you're too big to exist, and said that they ought to be broken down and he proposed various ways of [?? 00:57:26] fencing.

In the United States, the policy makers are most owned by Wall Street. I don't know if that was the right word.

Audience: [laughter]

Prof. Stiglitz: Bernanke and Geithner were not interested in too big to fail. They said: oh well, that's not a problem. They said: we'll develop good called resolution processes as if that will solve the problem. Interestingly some of the regional central - we have a regional--; the Federal Reserve has regional banks and some of the regional banks - the one from Texas, the one from Kansas City – said: we think banks ought to be banks, not gambling casinos and that they ought to be engaged in the business of lending and that smaller banks are going to better at that kind of process of lending, especially to small and medium size enterprises and they were very strongly associated with doing something about too big to fail.

They were also--; another example of this kind of what to do about the non-transparent derivatives – CDSs; those gambling instruments that led to the Government having to bail out AIG. One company in the United States, AIG, got $150 billion which, again, I don't know whether that's big money for Australia but it's big money--

Audience: [laughter]

Prof. Stiglitz: --for the United States. That's more money that we gave to one company than we gave to poor people over a decade! You know, we believe in corporate world but not in the individual welfare. Again, Geithner and Bernanke said: that's fine, let's keep it secret. Let's allow banks to engage in those risky derivatives and the people like Fisher and Honig, who actually wanted banks to be banks, said: no, that's not the business of banking.

I think that the process of re-regulating our banks is sort of--; We've done some things that are moving in the right direction but many things had been left undone.

Now on the question of the practical politics whether--; There are many reasons that governments fail to get re-elected and it's not always just bad policies. There are personality issues. There is the structure of the political process. For instance, Al Gore got many more votes than Bush did in the first election but the Supreme Court selected Bush to be President. It wasn't part of our democratic process in the usual sort of way.

If we had the proportion representation or any direct vote, Gore would have been the President with very marked differences in outcome. Well, to give another example, we have The House of Representatives in the United States. One of the Houses is controlled by Republicans even thought the Democrat--; more than one million more votes than the Republicans. The result of gerrymandering: if you look at the shape of some of the districts, they're very imaginative but they have no argument for them other than trying to distort the political process.

So, in my mind, one of the main problems that we face in the United State - which I can say no more better than I do Australia - in the United States is that we have a distorted political system in which we'd moved from a principal of 'one person-one vote' to something much more akin to 'one dollar-one vote' and if we were going to make our democracy work, we have to reclaim that and that's going to require more active citizen involvement.

When that's happened, things have gone well. We've had people succeed in arguing from many very issues that I talked about. And just to give you one example: we had a very active discussion, debate about who should be the Head of the Federal Reserve. One of the candidates, the one that Obama wanted, one of his main achievements was designing the law that ensured that derivatives would not be regulated. Some of us were sceptical about whether that was an achievement. [laughs]

Audience: [laughter]

Prof. Stiglitz: And whether that qualified him to be the Head of the Federal Reserve. Now, that was a really interesting case because Obama really wanted him but several of the Senators who were very pivotal said: it would be inappropriate, to put it mildly. The outcome of that was that

Obama didn't get who he wanted and one of my students is now the Head of the Federal Reserve.

Audience: [laughter]

[01:03:32]-[01:03:45]

Question 4: Professor Stiglitz, you described, quite eloquently, how the prevalence of near-liberal economic orthodoxy has been profoundly discredited by not only by the most recent crisis but by the last 40 years of economic performance and yet many of those ideas: austerity, deregulation, capital market liberalisation, are still driving particularly the Australian policy agenda.

To borrow a phrase why do these “zombie economic ideas” keep coming back? It cannot just be a matter of vested interest because they continue to survive in economics faculties and lobby groups and the influential political leaders. Why do they keep coming back and how can we stop them?

Audience: [laughter]

Prof. Stiglitz: Well, that's a good question. I don't think there is any good answer. I think part of the answer, clearly, is special interest that a lot of people made a lot of money out of bank de-regulation - a lot of money was moved from the bottom to the top and it served the interest of a lot of people, there was a big party and it went into the political process. They reinvested in the political process a small fraction of their profits. You know, I jokingly say - but it's not a joke, really - that the banks made much more money out of their investments in Washington that they ever made out of their investments anywhere else.

Those other investments were a disaster but the Washington investments paid off handsomely. So I don't think you should underestimate the role of special interest. I don't know if any of you saw the movie “Inside job”. If you've haven't, you should see it because it shows also the role of the economics profession in all of this and what it suggests is that economists are sometimes influenced by incentives, as well-- [laughs]

Audience: [laughter]

Prof. Stiglitz: --and that there is more money, in a way, to espousing ideas that people were willing to pay for. The financial sector is willing to pay for people to say things that the financial sector likes to hear. It's a very subtle process. I don't think any of my colleagues who starred in that movie would-- [laughs]

Audience: [laughter]

Prof. Stiglitz: --would say that they were influenced in the slightest by economic incentives. And so one of the things I always find so striking is that economists believe that everybody else is driven by incentives except for themselves.

Audience: [laughter]

Prof. Stiglitz: I think there are two elements of that: I think economic incent--; non-economic incentives are also important. It is true that they are also affected by non-economic incentives but I do think economic incentives do play a role.

And, finally, there is an element, particularly in faculty - and you have to--; for those of you who are PhD students probably will appreciate this more - if you spend five, six years of your life showing that markets are perfect, it's very hard to say: oh boy, that was a wasted six years now that I understand the markets are not perfect, even though the first lecture in economics is: some costs should be ignored; let bygones be bygones.

So what if you spent--; wasted six years of your life? It's better to waste those than to waste the next six years of your life. But it's very hard to persuade the economists of this basic principle.

Audience: [laughter]

[01:07:57]-[01:08:06]

Question 5: Professor Stiglitz, do you agree with the very recent statement by the Bank of International Settlements that current dominant macro-economic policies were not only managed to restore sustainable and equitable economic growth but are actually building a debt and asset bubble trapped that could result in a second global financial crisis even worse than the first?

Prof. Stiglitz: Well, I do agree that we haven't really solved the problem of financial stability. That was the remark I made before, that the reforms have not been adequate and, more broadly, with that quote I haven't seen their whole analysis but, let me say, there's something very peculiar about current monetary policies. The major instrument for trying to get the economy going again is lower interest rates to encourage people to borrow more.

If you remember what part of the problem of the crisis was: excess debt and part of the observation after the crisis was that we have an over-leveraged economy. So what is the major thrust in the current monetary policy? Get people more in debt. It's a strange thing and I think that's what the BIS is observing that--; and the way they're doing it is: low interest rates, trying to create some new bubbles.

So the whole thing has an aura of hard to understand whether this is--; hard to believe that this is the best way of getting--; solving the problem. And I think part of the reason goes back to what I talked about in my talk: none of this is going try to analyse what are the underlying sources of the weaknesses in our economy that seemingly necessitate the use of these other mechanisms - a bubble or more debt to get the economy going again.

[01:10:14]-[01:10:20]

Question 6: Professor Stiglitz, recently in an [?? 01:10:22] you spoke about how the US government is helping the person who committed an accident at the same time leaving the victim to bleed on the street. When asked about this situation [?name 01:10:35] [?name 01:10:38] John Stewart [?name] said that it was right thing to do and if they had not done that--; And so my question is, Sir: is it now unreasonable to even expect those who are unleashing the crisis to be held responsible for their actions?

Prof. Stiglitz: Yeah. There are many aspects of the question. In one--; Let me first talk about just the economics. There were two ways to help revive the economy. We could have given more of the money that--; If you go back to the 2008 crisis, what precipitated it, it was a housing crisis. That's where it began and millions of Americans lost their homes.

It had total, very serious social consequences. Median wealth in the United States, I don't know if I had mentioned in my talk, median wealth in the United States went down by 40% and that was partly because most people in the middle - their major asset was their home and their home went down in value and many of them lost their home. It was truly tragic.

But, rather than helping home-owners, we did almost nothing for them and even the Obama Administration, even Geithner now admits that was a mistake. We threw money at the banks. So it was another example of trickle-down economics - the belief that if you throw enough money at the top, everybody will benefit. It was clearly wrong and it didn't work.

And it was very peculiar that we were helping the victimisers and not helping the victims. That was one aspect and, I think, it was one of the reasons to go back to the politics. I think it was bad politics as well as bad economics. It was one of the reasons that there is a suspicion of government activity now. They say--; On a lot of people's part there is a view that the Government is giving--; helping the wealthy and not helping the people who need it so why should I help the Government? So it's really undermined the--; It was--; To my mind, it was really bad politics as well as bad economics.

But the other part of the problem is the banks that were too big to fail were also too big to jail and so very few of those who were responsible for the crisis, for the bad behaviour of the banks, the market manipulation, the abusive credit card practices, the predatory lending. In the United States the banks even engaged in discrimination.

They figured out who were the people most likely to be able to be preyed upon and they discovered it was Hispanics and African Americans and so they targeted those groups - 40 years after we passed anti-discrimination laws. They went to have--; They were like on another planet and they said: oh well, our responsibility is to our shareholders to maximise profits. And so, that's what they did or they tried to do.

And not one of those people have gone to jail! So, you ask, we have a system in which we actually lack individual responsibility. A few of them have been tried and a system of corporate responsibility allows them to evade individual responsibility and, in the end, in case of corporations the shareholders pay but the managers walk off with their profits as if they'd done nothing.

The worse miscarriage of justice perhaps was--; I don't know if many of you would know about our Robo Signing scandal. One of the problems the banks were so sloppy in their record keeping that their records of who owed money was not very good. To throw people out of their homes, they had to sign that they had inspected the records and the records were in good shape and that this person owed money and been delinquent by a certain amount of--; and that therefore there were grounds to throw them out.

But there were so many people that they wanted to throw out of their homes, they couldn't inspect their records and their records were so bad that they couldn't do it even if they had wanted do. So they hired people to sign thousands of affidavits, knowing that they were lying. They were committing perjury before the court: thousands and thousands of sign - it was called Robo Signing - and on the basis of that, thousands of people were thrown out of their homes, who didn't owe anything.

Not a single of the bankers has been held accountable. The bankers say: oh well, most of those who we threw out of their homes, probably owed something. And it was sort of like a system of justice that we have in the United States that says: most of the people that we give capital punishment probably did something wrong.

Audience: [laughter]

Prof. Stiglitz: But, of course, this is not the rule of law. The rule of law is supposed to protect those who need protection, not the bankers. But our system of rule of law protected the bankers and not those who needed protection. And so one of the outcomes of the crisis are the real question. It's about a rule of law and whether in fact we have the kind of system, you know, every morning every American kids in school says: I pledge allegiance to the Flag of the United States of the America and they say 'justice for all' and now we write that 'justice for those who can afford it'. Thank you.

Audience: [applause]

Prof. Chapman: Professor Stiglitz is pleased to sign books at the--; when this is all wrapped up. I wanted to just say a couple of words in closing.

Those of us in the academic economics profession know too well the intellectual contribution of Joseph Stiglitz. He more or less invented a new area of economic theory, involving asymmetric information and at any point in time, like right now, there will be people in economic seminars all over the world and/or PhD students involved exactly in that it's had a profound effect on our discipline and the way we think about economics and the way we also think about the role of government.

But there is something more than this which I wanted to bring to your attention which, if you've listened to it all tonight, you will get this, anyway, and it's a question of ethics, I think and morals and for Joseph Stiglitz it takes two very obvious forms.

The first involves the topics that he chooses to think about to research on and to write about and they are just the biggest issues of our time: the mismeasurement of human welfare, the prevalence of poverty and inequality and what can be done about this, the causes and the solutions to international financial failure, economic solutions to climate change and the profound adverse consequences of misdirected, ideologically-based and ignorant macro-economic management.

People could always choose what they want to do research on and what they want to focus on and they're his topics. Behind them they're essentially about the welfare of the human condition and about essentially also about inequality and poverty. But there is another issue, too. I've got to know Joseph Stiglitz well, and his work very well over the last five years and if you know about this career, you'll see some aspects of behaviour which can only be admired hugely for the moral and ethical stands that he takes and you could see it and hear it in what he said tonight.

There is a willingness there which is close to unique, to confront and to take on powerful vested interest groups with a financial and political power to damage public critics severely. He's done this with respect to his critique of the international Monetary Foundation and he's [?? 01:20:47] objections to their previous and currently a little bit austerity agenda. He did it in the World Bank, for example, by putting on the agenda of the issue of corruption as a matter for economics and as part of the remit for the World Bank's role.

And most profoundly over the last few years he's done it with his continual opposition and offence taken at what has happened with respect to government reactions in the United States, involving Wall Street, the US banks and, in part, the role of the US Administration itself for bailing out the rich and the powerful after the financial crisis which, in his very compelling view, they had largely been responsible for.

And I think, as a public intellectual, it's not just the intelligence and the rigour and the power of communication that he's so clear that when you know what he does and the reasons he'd do it, there is - and I think for those who know him and his work well - there should be profound admiration for the moral stances and the ethical position he takes. I think tonight's been very, very special. I hope you take the memory with you for a very long time and thank you so much, Joseph.

Audience: [applause]