

PRESENTATION OF THE SECOND PREBISCH LECTURE,
DELIVERED BY PROFESSOR JOSEPH STIGLITZ.

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The Prebisch Lecture Series was inaugurated in 2001, on the centenary of the birth of Dr. Raúl Prebisch, both to honour the memory of the intellectual father of our institution and to invite speakers who have distinguished themselves for their contributions to the economic and social development of Latin America and the Caribbean. On that occasion, we had the opportunity to listen to the lecture given by the renowned Brazilian economist, Celso Furtado, one of the outstanding contributors to ECLAC thinking and to Latin American structuralist economic thinking in general.

Today we are honoured by the presence of Professor and Nobel Laureate Joseph Stiglitz, who has been so kind as to accept our invitation to deliver this Second Prebisch Lecture. Professor Stiglitz was born in the United States in 1943, did his undergraduate studies at Amherst College and received his Ph.D. from the Massachusetts Institute of Technology. He was appointed Professor of Economics at Yale University at the age of 26. In 1969-1971, during his early years as a professor of economics, he also taught in Kenya. In his own view, that experience deeply inspired his theoretical work. He later taught at the Universities of Oxford and Cambridge, as well as at Stanford University. He currently teaches at Columbia University, where he has launched the Initiative for Policy Dialogue with a view to providing policy alternatives for developing countries in the global age.

In 1993 Professor Stiglitz left academia to serve on the Council of Economic Advisors, of which he became Chairman in 1995. From there, he moved to the World Bank, where he served as Chief Economist and Senior Vice-President for almost three years before leaving in January 2000. His service during this period in the United States government and the World Bank deeply affected his views on the world economy and international financial institutions, as he recollects in his recent book, *Globalization and Its Discontents*, which has rapidly become an essential reference in the international economic policy debate.

Professor Stiglitz was awarded the Nobel Prize for Economics in 2001 for his analysis of markets with asymmetric information. Through his contributions, he helped to develop the modern theory of market failures based on the imperfections in information flows. As he showed in several pioneering articles and in his book *Whither Socialism?*, imperfection in information flows has deep implications for the traditional theorems of welfare economics which assert the efficiency of competitive economies. Contrary to the older models of welfare economics, which assumed perfect information, he showed that even small degrees of information failures could have significant economic consequences. In his own words, "the slight perturbations in the standard information assumptions drastically changed all the major results of standard neo-classical theory: The theory was simply not robust at all". Furthermore, he contends that "while it is the information assumption underlying the standard theory which is perhaps its Achilles heel,

its failures go well beyond that", as it can also generate incomplete, noncompetitive markets and reduce the rate of innovation.

It is perhaps in the implications of this analysis for the functioning of financial markets that his contributions are best known. He has clearly shown that information asymmetries may block access to credit for many economic agents (mainly small firms and poor households), distort credit allocation and generate instability. The implications of this for the analysis of the role of the State have been clearly spelled out in his work, together with complementary contributions to the fields of public-sector, monetary and development economics. This is reflected in hundreds of papers and in several books, including his outstanding textbook, *Economics of the Public Sector*.

In his most recent book, he says: "I believe that globalization (...) can be a force for good and that it has the *potential* to enrich everyone in the world, particularly the poor. But I also believe that if this is to be the case, the way globalization has been managed, including the international trade agreements that have played such a large role in removing those barriers and the policies that have been imposed on developing countries in the process of globalization, need to be radically rethought". This is precisely the view expressed by ECLAC in recent years, particularly in its recent report "Globalization and Development", where we argue that a network of global, regional and national institutions must be built with three objectives in mind: providing global public goods, correcting international economic asymmetries and gradually building the foundations for global citizenship.

His lecture today, "Whither Reform? Towards a New Agenda for Latin America", will deal with issues that have been at the centre of our own work in recent years: Were the economic reforms on the right track? What can explain their failure to generate rapid growth in Latin America? Are we condemned to strong economic fluctuations, or is this the result of inadequate macroeconomic policies which can be remedied with alternative policy designs? Based on the experience of the region and the developing world in general, What is the proper balance between the market and the State in this new context? What are the fundamental elements of an alternative development agenda? And, crucially, what should be the role of international financial institutions and global arrangements in facilitating such an alternative agenda?

In the last few years, both in his position in the World Bank and in his more recent return to academic life, Professor Stiglitz has indeed been an outspoken critic of mainstream views on economic policies in the developing world and a strong advocate of the need to broaden the policy alternatives for developing countries. Furthermore, he has asserted that it is an intrinsic part of democratic development that alternatives should exist and that the governments and the people of developing countries should be informed about those alternatives and be able to choose among them. Thus, criticism of the mainstream views that have dominated globalization in recent years is, in his view, a basic exercise of democracy.

Professor Stiglitz:

During my professional life, I have had the opportunity to be your student at Yale University, to interact with you as a government official and head of ECLAC during your tenure as Vice-President of the World Bank, to participate in your Initiative for Policy Dialogue, but

most importantly to continually enjoy and learn from your outstanding intellectual creation. Let me say what a great privilege it is for this institution, but also for me personally, to be able to give you the floor today to deliver this Prebisch Lecture.