CORRECTING STIGLITZ: FROM INFORMATION TO POWER IN THE WORLD OF DEVELOPMENT

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Over the past decade Joseph Stiglitz has acquired a considerable reputation for radicalism. It began with his launching of the post Washington Consensus after his appointment as Chief Economist at the World Bank, and was then reinforced by his subsequent ‘resignation’ from that post in 2000, followed by his extensive critique of the IMF, above all in his best-selling book, Globalization and Its Discontents. But on closer examination Stiglitz’s trajectory reveals a number of telling truths, not so much about himself, as about the World Bank’s policies and ideology, the influence on the Bank of the US government (most sharply revealed in the recent appointment of Wolfowitz as President of the Bank), and the dismal science of the Bank’s economics – from which Stiglitz has in some respects at most marginally departed. In reality the Bank has responded to its crisis of legitimacy in the early 1990s by de-emphasising neo-liberal theory in principle whilst supporting private capital ever more strongly in practice. Ideologically, this has been marked by a number of shifts in World Bank parlance, from ‘good governance’ to ‘poverty alleviation’, and especially its most recent claim to be first and foremost a ‘knowledge bank’. Tellingly, these elements are in fact entirely consistent with Stiglitz’s scholarly work and were, indeed, strongly endorsed by him during his time at the Bank. Only after he was forced out of the Bank was he forced to accept, however partially, unconsciously and implicitly, that the world – including the Bank – has to be understood in ways that depart from the scholarly tradition he has sought to promote.

THE POST WASHINGTON CONSENSUS AND THE REDISCOVERY OF DEVELOPMENT AT THE BANK

Just over a decade ago the Bretton Woods institutions were marking, if hardly celebrating, their fiftieth anniversary. At that time they were under heavy criticism from all sides, not least because of the appropriately named ‘lost
decade’ of the 1980s during which the Washington Consensus had dominated development policy. The Bank and the IMF were condemned from the extreme right for providing any aid at all to corrupt and inefficient governments. A more effective critique came from those who attacked the Bank’s dogmatic ‘market versus state’ agenda.

In response, the Bank and the IMF adopted a raft of concepts and policy stances that played a major role in deflecting criticism and restoring a degree of legitimacy. Governments were now required to be partners in, to ‘own’, the policies that were attached as conditions to loans. ‘Good governance’ was emphasized. The Bank’s Comprehensive Development Framework inspired a new-found commitment to, and partnership with, the IMF for poverty alleviation, allowing the marginal differences between them to be buried in the formulation of Poverty Reduction Strategy Papers (as the economic assessments for countries receiving loans have become known since 1999). The Washington Consensus was now admitted to have had an excessive macro bias towards stabilization, and a restricted micro agenda of price incentives. A ‘broader’ understanding of development was now advocated.

A set of intellectual advances within mainstream economics provided a helpful context within which the Bank and the IMF undertook this reinvention. A ‘newer’ development economics had emerged in the late 1980s, with the ‘rediscovery’ of the singularity of development. In contrast to the neo-liberal ‘new’ development economics, it emphasized market (and institutional) imperfections. On the one hand, it reflected attempts to incorporate realism into economic analysis, including such factors as economies of scale, imperfect information or even the lack of markets; on the other it reflected an ambition to account for features traditionally beyond the realm of mainstream economics – history, institutions, social networks, etc.

The Bank’s desire to engage with these developments was realized through the appointment of Stiglitz as Chief Economist. Much as the Bank had gained intellectual leadership during the rise to prominence of the ‘mono-economics’ of the Washington Consensus, whereby the problem of development had been reduced to the rational responses of economic agents to price incentives, failure to engage with a shifting paradigm risked threatening that position. Stiglitz’s appointment also offered the opportunity to demonstrate that the Bank was responsive to criticisms of the Washington Consensus for its extreme pro–market stance and its poor outcomes in practice.

Initially, Stiglitz fulfilled expectations. Most memorably, shortly after his appointment, he called for his post Washington Consensus, the main elements of which were endorsed in the Comprehensive Development Framework subsequently put forward by Bank’s President, James Wolfensohn. A broader
framework for development was outlined, based on objectives of environmental sustainability, equity and democracy:

We seek sustainable development, which includes preserving natural resources and maintaining a healthy environment. We seek equitable development, which ensures that all groups in society, not just those at the top, enjoy the fruits of development. And we seek democratic development, in which citizens participate in a variety of ways in making the decisions that affect their lives.\(^3\)

This suggested that the Bank was abandoning neo-liberalism and adopting a more moderate and broader approach to development than simply relying to the maximum possible extent on market forces. The Bank’s re-emphasis on its developmental role also had implications for its relationship with the IMF. While the era of structural adjustment had entailed important overlaps, making the two institutions into what some observers saw as identical rather than ‘fraternal’ twins,\(^4\) the Bank’s new agenda sought to reassert the conventional demarcation between the Fund’s predominantly short-term macroeconomic focus and the Bank’s longer-term structural focus.

Yet, since the Stiglitz-sponsored discursive innovations increasingly offered a platform for opposition to policies particularly cherished by the US Treasury, and successfully promoted by the IMF, Stiglitz’s diligence quickly turned from asset to liability. He had taken issue with the IMF’s handling of the series of financial crises that marked the late 1990s (East Asia 1997-98, Russia 1998, Brazil 1999) and with its promotion of hasty privatizations in the former command economies. In Stiglitz’s thinking the IMF rapidly emerged as the evil twin, the embodiment of pernicious monetarist ideology and, ultimately, an obstacle to development.\(^5\)

Such a high-profile insider assault on one of the pillars of a carefully US-guarded international financial set-up did not go down well with the US financial establishment. The response from then US Treasury Secretary Lawrence Summers, himself previously Chief Economist at the Bank, was unequivocal: if Wolfensohn wanted a second term, Stiglitz had to go.\(^6\) Once freed from his official straitjacket, however, Stiglitz continued to infuriate the US financial establishment. Significantly, in an article in the *New Republic*, he called the IMF staff ‘third rank students from first rate universities’ and for the first time identified vested financial interests as the reason why particular policies had been imposed on the crisis-stricken economies,\(^7\) a theme further pursued in his international best-seller, published in 2002.
GLOBALIZATION AND LIMITED DISCONTENT

In *Globalization and Its Discontents*, Stiglitz was able to make his case against the Washington Consensus unencumbered by the constraints of holding office at the Bank. Nonetheless, he did so in ways that differ only marginally from the positions he took before his departure. Stiglitz’s criticisms are, and always have been, standard criticisms, and had been made by progressive scholars, albeit from different perspectives, for a decade or more before being adopted, pretty much without acknowledgement, by Stiglitz himself — in conformity with the Bank’s practice of never acknowledging that its shifting rhetoric may have been anticipated, let alone prompted, by external critics. Specifically, Stiglitz is concerned that the policies being imposed by the neo-liberal Washington Consensus as conditions attached to loans have been disastrous. They include, for example, a fiscal austerity that deflates the economy and provokes economic and social instability; high interest rates that also deflate and force businesses into bankruptcy; trade liberalization that undermines domestic industries before they are established competitively; financial liberalization that crowds out local banking more attuned to domestic needs; and premature and inappropriate privatization before the requisite institutions for implementation and regulation are in place.⁸

But where Stiglitz really moves beyond his pre-sacking posture is in the ferocity of his indictment of the IMF as being primarily responsible for poor and failed policy. Why the Bank should be less to blame is unclear, other than as a reflection of a lingering loyalty on Stiglitz’s part, and his belief that the Bank is frustrated by the IMF. His charge against the IMF goes beyond that of poor economics and, hence, poor policy. Rather, these are themselves explained by two further factors, conjured up as *dei ex machina*: ideology and self-interest. He sees the Washington Consensus as driven by a dogmatic belief, against all the evidence, in the virtues of free markets. This belief has been effectively demolished, as far as Stiglitz is concerned, by his own approach to economics: ‘More recent advances in economic theory … have shown that whenever information is imperfect and markets incomplete, which is to say always, and especially in developing countries, then the invisible hand works most imperfectly’.⁹

Significantly, the imperfect information/markets approach that has exclusively informed Stiglitz’s scholarly work is otherwise notable for its virtually total absence from his best-selling book. Its absence seems due not so much to a desire to popularize his account (although it no doubt helps), but to a shift in what he sees as key explanatory factors. For in addition to deploiring the role of neo-liberal ideology he argues that the Washington Consensus has been driven and accepted by those whom it most benefits, allowing the
interests of the Western financial community to prevail over those of the world’s poor.

Yet this view of the ideology and interests of the financial community represents a remarkable and generally unobserved contradiction in Stiglitz’s analytics. For it is inconsistent with the references he makes to advances in economic theory (in which Stiglitz is largely referring to his own work), according to which *individuals rationally* pursue their own interests, as they do in all mainstream economic theory. For if things like ideology and a community of (financial) interests are causal, this is something on which Stiglitz has no analytical purchase. Instead, he represents the problem as one of a moral failing on the part of the IMF and its supporters. And whilst he is sufficiently critical of neo-liberal globalization to be counted as a prominent dissident, his critique rarely extends to the Bank, especially if it could be unshackled from the IMF. But the evolving position of the Bank before, during and after Stiglitz’s reign suggests that it is more important to look at both ideologies and conspiracies of interests than at the imperfect workings of more or less invisible hands. In other words, Stiglitz’s work ends at the point where it should just be beginning.

**RHETORIC, SCHOLARSHIP AND POLICY AT THE BANK**

As much, then, as Stiglitz’s contributions helped the Bank’s much-needed reinvigoration, his commitment to the policy implications of his own scholarship, evident in his increasingly vociferous critique of the IMF, could not be reconciled with the holding of office within the Bank and ultimately led to his removal. It is against this background that the putative shift to a more state- and poor-friendly stance on the part of the Bank needs to be carefully deconstructed, by looking closely at its shifts on privatization, aid and knowledge.

Although the Bank had fanatically pursued privatization in the past, its new position is highlighted in a heading in a recent comprehensive Report endorsed by the current Chief Economist, Francois Bourgignon: ‘Privatization Has Been Oversold and Misunderstood’. The Bank’s previous stance had been underpinned by free market dogma and the judicious selection and interpretation of evidence. In contrast, its latest offering accepts that there can be a case for continuing public ownership in principle, despite ‘the fact that state ownership is flawed’, and offers the case of the Brazilian hydro. It concedes that more and better evidence is needed on the welfare impact of privatization. And whilst, as always, falling short of self-criticism, it allows the Wall Street Journal to speak on its behalf in this respect:
The World Bank, the apostle of privatization, is having a crisis of faith. What seemed like a no-brainer idea in the 1990s – that developing nations should sell off money-losing state infrastructure to efficient private investors – no longer seems so obvious … Consumers, feeling deceived, increasingly associate privatization with higher rates for them and higher profits for foreign companies and corrupt officials. The unexpected turn of events has left privatization enthusiasts at the World Bank wondering what went wrong.10

So there seems to be a shift in principle towards a more tempered position on privatization, and from dogma to a more scholarly approach, much in Stiglitz manner. The situation with respect to policy in practice is, however, open to an entirely different interpretation. This can be seen by reading between the lines of the Report itself. For its thesis is not about accepting that privatization has gone too far, and that it is time to give state enterprise another chance. To the contrary, most of the Report is concerned to identify what pre-conditions, of regulation and competition, the state must put in place in order that privatization can be renewed and be successful. There is no consideration of state enterprise as an alternative, nor any measured consideration of whether the resources, efforts and capacity-building needed to ensure successful privatization might not be better spent promoting and improving the performance of state enterprise.

Further, the Report is conscious of the extent to which privatization has stalled in practice, especially in Africa, as a result of opposition from government, popular movements and – though more by way of passive resistance – private (foreign) capital. The latter is rarely interested in investing in socio-economic infrastructure, such as water provision, with impoverished customers and uncertain returns. The result is that the Report offers a pecking order of infrastructure targeted for privatization – running from the attractive fields of telecommunications and energy, through transport, to the dead ducks of water and sewerage.

In short, the Bank has taken an apparently more cautious approach to privatization in principle, as the means by which to try and push more of it through in practice, with a focus on sectors where there may be more chance of success. State activity is needed to make privatization happen. Significantly, the Bank has sought to transfer billions of dollars of infrastructural financing from the public to the private sector, from International Development Assistance (IDA), which makes concessional loans to governments, to the International Financial Corporation (IFC), which lends exclusively to the private sector.11
There are more general lessons to be learned from this account, for it reveals that there is considerable dissonance between the scholarship, the rhetoric and the policy of the Bank. As argued elsewhere, the ways in which they are (in)consistent with one another varies over time and across issues. At the most general level, for example, the neo-liberal rhetoric of the Washington Consensus is pure fantasy, serving to justify or to conceal extensive discretionary intervention, not least in the conditionalities imposed with adjustment loans. By contrast, the new rhetoric is equally discretionary in its policy interventions, but now provides a different rationale for them. In light of ‘a variety of country characteristics both observable and unobservable, including institutional capacity, business culture, nature of organized interest groups, patterns of social conflict, and codes of conduct …’, it now declares, ‘[t]here is no universally appropriate model’. In this way, not only has the Bank’s apparent distancing of itself from neo-liberalism enhanced its legitimacy and consistency, it has also provided a rationale for a broader scope of intervention in both economic and social policy, as markets both have to be made to work and their imperfections have to be corrected through the non-economic factors that underpin them.

KNOWLEDGE OF AID AND IN AID OF KNOWLEDGE

A close inspection of the Bank’s rhetoric and practices around aid further illustrates these issues. For when Stiglitz arrived at the Bank in 1997, ready to infuse it with his own brand of thinking, the operational realities around aid had been taking a particular form. After more than fifteen years of experience with adjustment lending and much debate inside and outside the Bank a consensus had emerged within the institution, evident in its 1994 report on Africa, that adjustment had promoted ‘sound’ policies, but had not necessarily produced very strong results in terms of growth or poverty reduction. As the Bank understood it, implementation problems carried the entire brunt of inadequate economic performance, and local ‘ownership’ of its reform programme became a perceived precondition for the economic success of assistance packages. Following this, the ambition to exercise greater selectivity in the allocation of aid flows gained currency. Instead of imposing conditions to be achieved in response to the receipt of loans, loans were to become conditional on what had been achieved beforehand. Furthermore, countries that had not yet sufficiently ‘improved’ their policies or governance were to benefit from ideas (mainly transferred through policy dialogue and advisory services) rather than loans, as the pedagogical role of the Bank moved centre stage: ‘(a)id can nurture reform in even the most distorted environments – but it requires patience and a focus on ideas, not money’. The core of the Bank’s performance-based allocation system is the annual
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Country Policy and Institutional Assessment, CPIA. This involves the attribution of a score on a scale from 1 to 6 for sixteen criteria.\textsuperscript{16} Necessarily, the ratings carry the Bank’s judgement on which policy and institutional environment is best suited to development, and are built around readily recognisable precepts: low inflation; budget surplus; minimal restrictions on trade and capital flows; flexible goods, labour and land markets; market-determined interest rates; prohibition of directed credit; and competition policies guaranteeing equal treatment of foreign and domestic investors, accompanied by ‘virtually’ complete capital account convertibility. To temper the Washington Consensus taste of this approach, the CPIA also comprises criteria projecting concerns for equity – limited to the targeting of public expenditure and social safety-nets, the environment, and gender; a recognition of the importance of human resource development (health, education, nutrition); and ‘governance’, meaning the property and contract rights regime, transparency of government, corruption prevention, the organization of the civil service, and the quality of budgetary and financial management.\textsuperscript{17} The allocation formula deployed by the Bank ensures that the level of resource allocation rises faster than the rating of performance so that there is a considerable reward for countries at the upper end of the CPIA scale. This translated, in the Bank’s last aid allocation exercise, into a distribution of resources in which countries in the top performance quintile received on average five times as much per capita as countries in the bottom quintile.\textsuperscript{18}

The CPIA exercise emblematically illustrates how in practice Bank assistance remains conditional in an even more stringent manner on a core set of neo-liberal policies, with a veneer of social and governance concerns. This combines with its commitment to country ‘ownership’ through Poverty Reduction Strategy Papers (PRSPs). The latter come about through close collaboration between recipient/debtor and the Bank/IMF, wrapped in a compulsory ‘participation’ procedure in which CPIA results serve as beacons indicating areas on which the PRSP should focus.\textsuperscript{19} The recipient country facilitates a policy framework, developed according to Bank/IMF priorities, that ties certain aspects of social policy formation to the well-known neo-liberal macroeconomic framework.\textsuperscript{20}

The proposal to allocate aid selectively to countries characterized by ‘good’ policies and institutions came to be formally supported by a set of arguments regarding the relationship between aid, conditionality and macroeconomic performance. These are mainly attributed to a few individuals (Paul Collier, David Dollar and Craig Burnside) who were active in the Bank’s research department when Stiglitz was Chief Economist. Their main argument, which forms the core message of the two main Bank reports on aid and conditionality, is simplistic and predictable.\textsuperscript{21} Aid only affects the
growth rate of recipient economies positively if the ‘right’ policies/institutions prevail and aid conditionality has no effect on the policy environment, with the concomitant policy rationalization that aid should be (re)allocated towards those countries characterized by a ‘good’ policy/institutional environment. This crude thesis rapidly acquired scientific status, notwithstanding the seriously flawed nature of the research that underlay it. Its deficiencies range from weaknesses of model specification to the misuse of data and case material, raising serious questions about the Bank’s academic standards and intellectual honesty – especially significant, given the Bank’s command over massive research resources, and its current claim to command and disseminate knowledge. Interestingly, Stiglitz endorsed this research on various occasions, even if the macroeconomic stance it embodies directly contradicts his post Washington Consensus.

The projection of this particular understanding of the dynamics of aid and conditionality was furthermore conveniently linked to the Bank’s new emphasis on ‘knowledge’. At the 1996 Annual Meeting Bank President James Wolfensohn initiated a whole set of initiatives to operationalize his ‘Knowledge Bank’ vision. Of course, the Bank has always exercised a knowledge role, with a variety of contradictory elements, the more so as it became leader of the aid regime when, during the 1980s, policy-based lending expanded rapidly. The current explicit promotion of a knowledge mission for the Bank, however, took on specific significance as it reflected particular shifts within the World Bank Group, already alluded to above.

Over the last two decades, the Group has witnessed the very rapid expansion of its private sector arm, the International Finance Corporation. This has been accompanied by steady declines in the operations of its traditional non-concessional lending window, the International Bank for Reconstruction and Development (IBRD), which, in 2002, for the first time registered negative lending, and a significant fall, by one third over the last decade, in donor contributions to the aid window of the Bank, the IDA. Meanwhile, all the current activities of the Bank are strongly driven by the strategic priority of private sector development. These trends highlight the use of the Bank’s financial resources, at subsidized rates, to support corporate investment, as against its supposed mission, as a public international financial institution, to promote development and combat poverty. The ‘knowledge’ mission can hardly repair this disconnection but it has served to draw attention away from the Bank’s financial role by emphasizing its supposedly unique ability to share decades of learning about economic development with clients around the world.

The promotion of a knowledge mission for the Bank was accompanied by a set of analytical arguments on why the Bank should be so engaged. Stiglitz,
in particular, contributed to these, keen to impose his own analysis on the new subject area. ‘Knowledge’ emerges as another factor of production, with poor countries now differing from rich ones ‘not only because they have less capital, but because they have less knowledge’.30 Furthermore, ‘knowledge’ tends to be a public good. Stiglitz explains:

Most knowledge is a global public good: a mathematical theorem is as true in Russia as in the US … The problems that economics deals with, such as scarcity, are ubiquitous, and accordingly the laws of economics are universally applicable even if idiosyncratic institutions exist within each country.31

And he continues:

Much of the knowledge that is required for successful development is not patentable, it is not the knowledge that underlies new products or processes. Rather, it is equally fundamental knowledge: how to organize firms, how to organise societies, how to live healthier lives in ways that support the environment. It involves knowledge that affects fertility and knowledge about the design of economic policies that promote economic growth.32

The supply of such a public good will be deficient without active public support. Here then is a central role for the Bank:

The accumulation, processing, and dissemination of knowledge in development, as well as working more broadly to close the knowledge gap, is the special responsibility of the World Bank. The two activities of the Bank are complementary. Knowledge, particularly knowledge about the institutions and policies that make market economies work better, leads to higher returns and better allocation of capital … The World Bank has a role to play in providing such advice that extends beyond the public-good nature of knowledge. It is, and is widely perceived to be, an honest broker.33

Apparently characterized by economies of scale and scope in knowledge, the Bank has a unique capacity to analyze, codify and disseminate development experience around the world. The Bank research alluded to above regarding aid and conditionality is a case in point: ‘One example of how economies of scope work in favour of Bank research is a report entitled “Assessing Aid”. Macroeconomists, public finance analysts and poverty
experts worked on different aspects of the impact of aid, and these analyses were then brought together to construct an integrated view of what works, what does not and why’.34

Never mind the fact that this research failed to sustain its own conclusions, and flagrantly violated the basic rules of scholarly research.35 Could particular imperatives have steered its conclusions, in a crass example of ‘crony intellectualism’? Of course not: the Bank’s knowledge is ‘neutral’, particularly in the context of the recent changes in the study of development, with the (Stiglitzian) intellectual project of the New(er) Development Economics providing an opportunity for the Bank to restyle itself comfortably on ‘knowledge’ lines. Moreover, with the end of the Cold War the grand ideological battles are apparently over, with now ‘almost universal agreement’ that markets should be at the centre of any ‘vital’ economy.36 Government plays a role in complementing markets, ensuring their proper functioning.37 Within this broad agreement, the continuing debates are ‘over more technical matters, such as how to respond to economic crisis, how to undertake financial reform, and what is the proper sequencing of privatisation’.38 Hence, finally, while nations in the developing world have of course had to struggle to overcome their colonial heritage, Stiglitz counsels that ‘it is not necessarily the case that everything that the colonists left behind – including their economic theories – was flawed; and it is not necessarily the case that the economic theories of those that supported the struggle for independence were sound’.39

This is surely a manifesto for neo-colonialism in the realm of economics, and is anchored in a dramatically reductionist understanding of knowledge.40 The socio-historical, political and economic context in which knowledge comes about and is put to use, is entirely disregarded, combined with a glaring absence of critical reflection on how the Bank is governed and its implications for norms of ‘scientific’ acceptability, strongly affected by the leading role of economics at the Bank and the particular state of the discipline.41 As others have noted, the claim of the Bank to be the major repository for and distributor of knowledge about development merely entrenches and reinforces global power relations.42

Illustrative are issues raised by the Global Development Network (GDN).43 The idea for this emerged out of an effort by the Bank to broaden its regional approach to policy and research networks.44 It was initiated by Stiglitz and was assured of strong support from Wolfensohn.

The GDN is explicitly intended to be a forum for Southern knowledge-sharing through the organization of conferences, collaborative research, research awards, etc. While the Knowledge Bank ‘scans globally’ for best practice, the GDN partners are to ‘reinvent locally’, with local adaptations
amounting to the ‘reinvention’ of ‘best practice’ for the new context by local research and policy institutes. Where previously policy ‘advice’, backed up by conditionality, attempted to bring a country to implement ‘best-practice recipes’, often without ‘ownership’ of or support for the reforms, now local policy and research institutions can adapt and prepare a ‘transplanted policy initiative’ to ‘better survive and perhaps thrive in the local environment’.

As a result of this process of ‘adaptation’, which often involves ‘reinventing the idea’, government officials should no longer see policy reform as a foreign imposition ‘but as a local product that addresses their needs and which they can sponsor’.46 Thus, especially in the context of a persistent decline in national institutes of research in developing countries over the last two decades, the GDN comes to play an important role in structuring the supply of development thinking (‘knowledge’) within developing countries, strengthening the advocacy and agenda-setting capacities of certain think-tanks and amplifying one (economic) discourse in preference to alternative voices. Certain policy approaches are reinforced by the multiplication of organizations at a domestic level and, although alternative perspectives on development and grass-roots knowledge are not necessarily excluded in either the Bank or the GDN, their influence is much more tenuous.47

THE LIMITS OF ORTHODOX DISSENT

The relationship between Stiglitz’s analytical ventures and the Bank’s self-reinvention is obviously more complicated than can simply be inferred from his ejection from the Bank. The previous discussion of privatization, aid as reward for good (neo-liberal) policies, and knowledge as aid, reveals the complexity of Stiglitz’s role. For as we have seen this fierce critic of (premature) privatization and neo-liberal macroeconomics condoned performance-based aid and has positively embraced the idea of knowledge as aid. This mixed response is a consequence of his needing to conform to the policy dictates of the Bank while he was working there, but also of the limitations of his own economics. What is the substance of Stiglitz’s economics, and does it go any way towards justifying his reputation for radicalism?

Stiglitz understands the (capitalist) economy through the idea that exchanges take place between agents who are imperfectly and asymmetrically informed.48 Consequently, markets work imperfectly, leading them to be inefficient in respect to the volume of trade, perpetuating imbalances between supply and demand, or even to be absent altogether. From his information-theoretic approach to market imperfections, Stiglitz draws Keynesian conclusions for macroeconomic policy (a critique of monetarism).49 He seeks an appropriate balance between market and state in microeconomic policy and, for developing countries, safety nets for the poor, and a proper
sequencing and regulation of financial liberalization in particular, and other policies in general, as opposed to neo-liberal shock therapy.

In these respects, as revealed time and again in his publications, whether policy documents, textbooks or pure research, the outstanding feature is a profound orthodoxy, judged on a number of criteria. For example he defines economics as the study of scarcity, how resources are allocated among competing uses, echoing the definition notoriously adopted by Lionel Robbins during the Great Depression (when resources were clearly not being allocated among competing uses). Methodologically, he remains committed to the central tenets of the orthodoxy, drawing almost exclusively upon methodological individualism, as optimising individuals are organized by the market in equilibrium, for better or worse. He also accepts the distinction between positive and normative economics, even if he recognizes that ideology inevitably enters economics because evidence is insufficient to discriminate between competing theories.

Furthermore, like the vast majority of mainstream economists, Stiglitz reveals scant knowledge of the history of economic thought or of political economy. And both his post Washington Consensus and Wolfensohn’s Comprehensive Development Framework are notable for their neglect of the literatures that have forced them to be adopted – whether on the developmental state, or ‘adjustment with a human face’, or the critiques of neo-liberalism and modernization/and development as growth.

This is indicated by the absence from Stiglitz’s work of numerous crucial variables developed by, and common to, the social sciences in general, and political economy in particular. For Stiglitz, for example, the response to the suggestion that exchanges (between capital and labour or landlords and peasants, for example) might be ‘contested’, is to place ‘power’ into a nebulous category that can be set aside in deference to sounder economic argument: ‘There are good economic reasons, beyond the exercise of “power” (whatever that much-used term means) for the existence of hierarchical relationships. This attitude to power and the like is indicative of a fundamental schizophrenia within Stiglitz’s world view, for he needs to appeal to such factors whenever his own theoretical approach fails, as it inevitably does, to capture the factors he sees are at work.

In addition, in the absence of the concepts of power, conflict, etc., although emphasis on market failure is the distinguishing mark of Stiglitz’s economics, he continues to favour markets and competition as the core, if not the only, significant element needed for an understanding of the economy and its effective functioning. In his view, ‘despite the presence of imperfect competition, imperfect information, externalities, and public goods, the basic competitive model continues to provide important and powerful insights’. Although
this provides the point of departure for his ‘richer, more complete model of the modern economy’, he suggests that ‘by and large, private markets allocate resources efficiently’. Consequently he can claim that ‘both individuals and countries gain from voluntary trade’, although this is later qualified, if not contradicted, by the suggestion that ‘While all countries benefit from free trade, some groups within a country may be adversely affected’. He sees the state as essentially benevolent, a special institution (all belong and it can compel) for the correction of market failures and undesirable social outcomes. This implies a weak role for the state but, equally, a weakened understanding of it:

There are three basic reasons why the government intervenes in the economy: (1) to improve economic efficiency by correcting market failures; (2) to pursue social values of fairness by altering market outcomes; and (3) to pursue other social values by mandating the consumption of merit goods (such as education) and outlawing the consumption of merit bads (such as illicit drugs).\(^{53}\)

This hardly captures the nature of the state in developing and transitional economies, even if it could be accepted as anything other than an imaginary ideal of the state in developed economies. The possibility that the state might be captured by, or representative of, vested interests, with corresponding ideologies and powers, is precluded, together with any proper treatment of historical specificity and context.

Such limited analytical principles are cruelly exposed by big questions. Historical events such as the Great Plague, for example, become accidents or random events. For development, the question is posed of why ‘developed and less developed countries are on different production functions’. One answer is that:

We emphasize that accidents of history matter … partly because of pervasive complementarities among agents … and partly because even a set of dysfunctional institutions and behaviors in the past can constitute a Nash equilibrium from which an economy need not be inevitably dislodged.\(^ {54}\)

In less technical terms, ‘Gaps in knowledge and organization, both between more and less developed countries and within developed countries, account for much of the differences in income’.\(^ {55}\) In this light, Stiglitz might better have stuck to his 1991 judgement that as far as development is concerned he was far from ‘sanguine’ about ‘the future success of our profession’.\(^ {56}\)
Significantly, throughout his work, there is little or no reference to globalization. The same even remains true, despite its title, of his best-selling book *Globalization and Its Discontents*, in which there is scarcely a concept, let alone a theory, of globalization (other than as a reduction in transport and communication costs).

In his own professional experience, he is then confronted with an insoluble paradox. If the world is populated by optimising individuals, and the state is essentially benevolent, how do we explain the persistent adoption of bad policies, and the enforced departure from governmental posts of those who pursue good ones? Thrust, at the most personal of levels, into the real world, Stiglitz abandons his analytical principles and appeals to some combination of irrationality, ideology, and organized vested interests. His colleagues at the IMF are berated for being of low quality. If the state is needed to act on behalf of individuals who do not know what is best for them, what if such individuals take control of the state? Deregulation, corruption, austere macroeconomic policies and financial booms and busts featured during Stiglitz’s time at the World Bank and as advisor to Clinton (to whom he remains endearingly loyal, in the belief that Clinton was betrayed by his other advisors). These things lead him to suspect the presence of entrenched financial interests and ideologies.

Remarkably, as already indicated, his critical accounts of his experiences draw on these things, plus incompetence, for their causal content, with little or no reference to information-theoretic economics, and certainly none of the theorems that are reputed to exude from him on an hourly basis. But from where do these vested interests and their ideologies come, and why does incompetence prevail when, where and how it does? The guns of the Nobel scientist fall silent, although it is always possible to see such things as the path-dependent consequences of the pursuit of individual self-interest, as imperfect markets and institutions have evolved in response to random shocks. Such analytical acrobatics, however, at most indicate the parallel universe in which Stiglitz’s economics serve a rhetorical and ideological fig-leaf for the darker side of the Bank’s practice.

**CONCLUDING REMARKS**

Given all this, how can Stiglitz be considered a radical? During his tenure at the Bank he scarcely ever alluded to ideology and vested interests. This helps to explain the directions, and limitations, of his contributions at that time. Knowledge as aid is fully compatible with his ‘asymmetric information’ approach; indeed, differences in knowledge are deemed to explain differences in levels of development. Without any hint that the Bank might itself be subject to ideology and vested interests (despite its record prior to his
arrival, against which he was reacting), he held that it makes sense for it to purvey its knowledge. Targeted aid makes sense in the same way, in view of the incentive-compatibility problems involved (how do we make recipients do what they should). Privatization is subject to criticism if not properly sequenced and regulated. But, as with macro-policy if taken to neo-liberal extremes, his criticism is restricted to the IMF and to the shock treatments imposed on the former Soviet Union and elsewhere.

Thus, Stiglitz’s departure from orthodoxy in scholarship remains as limited as his attitude to inadequate Bank rhetoric and practice is complacent. Yet he has displayed considerable intellectual and personal integrity by remaining committed to what he sees to be the implications of his economics for policy – there are pervasive market and institutional imperfections and these must be addressed, rather than wished away by neo-liberal virtualism. For taking his scholarship into the policy arena, in particular with regard to inappropriate macroeconomic recommendations in the wake of the various financial crises and the hasty privatizations undertaken across the developing and transition economies, he was ousted from the Bank – despite the continuing role that his discourse plays there (and, increasingly, within the IMF as well). Indeed the Bank’s report on privatization, discussed earlier, comfortably cites Stiglitz to support its latest rethink!\(^{59}\)

Second, Stiglitz’s reputation for radicalism reflects profound shifts over the course of his career in the ideology of those amongst whom he moves – whether academic economists or policymakers. He is a Keynesian, with a profound belief in the imperfect workings of the economy at macro and micro levels. As such, he would have been unremarked, except for his prolific academic output, during and immediately after the post-war boom. But now, in the era of neo-liberal hegemony, he seems like a breath of fresh, radical air. This is implicitly recognized by Stiglitz himself. He has set up a campaign for alternative economics (although he has rarely engaged with anything outside the mainstream).\(^{60}\)

Third, the nature and scope of economics have shifted in ways, partly promoted by Stiglitz himself, that propel mainstream economists more into the public eye. Unlike the vast majority of his Keynesian predecessors, who concerned themselves with, and confined their analytical principles to, the imperfect workings of the markets of the advanced economies, the information-theoretic approach broadens its compass to incorporate all economic and social relations. Such ‘economics imperialism’ means that economists can now freely talk about politics, customs, institutions, history, culture and so on, in ways that are readily communicable to non-economists and that appear to be less reductionist.\(^{61}\)

This is why Stiglitz’s scholarship and rhetoric is conducive to restoring
and to sustaining the legitimacy of the Bretton Woods institutions, even if his own policy conclusions proved so unpalatable in practice. Some people see his approach as scarcely distinguishable from the Washington Consensus. Williamson, who gave the Consensus its name, complains that ‘I once attempted to engage Stiglitz in a debate about the Washington Consensus. He declined to participate on the grounds that he and I disagree little about substance as opposed to semantics and he did not consider semantics to be worth debating.”

The basic idea of correcting market and institutional imperfections when that offers better outcomes than leaving things to the market, hardly represents a deep understanding of development, nor a recipe for promoting it. Its affinities with the Washington Consensus are at least as striking as its differences. It does not even go so far as to restore the central pillars of the pre–Washington Consensus of the McNamara period, with its emphasis on a central role for the state through welfarism, modernization and Keynesianism. In lieu of these, we are offered limited aid but fulsome knowledge – to what effect?

Perhaps the most important conclusion to be drawn from the curious case of Stiglitz is just how limited is the scope for criticism and change within the World Bank. There was no problem with his economics. Indeed within a year of his resignation he was awarded the Nobel Prize in economics, and Stiglitz-speak continues to underpin Bank (and, increasingly, IMF) rhetoric. But as soon as that economics was perceived to challenge policy (and ideology and vested interests) in practice, it was abruptly excised. Once outside the Bank, Stiglitz does seem to have learned what many of us had already learned from that same vantage point – that mainstream economics, even with informational, market and institutional imperfections, must give way to a political economy of historically and ideologically vested interests (of which western finance is at most a good starting point). It remains to be seen whether this truth eventually predominates over the post Washington Consensus that he promoted whilst at the Bank, and which he has inconsistently and unfortunately continued to promote even after he discovered that vested interests and ideology might be of more significance. Whilst Stiglitz proved his intellectual integrity in the struggle against the rhetoric of neo-liberalism, his work has been deployed to limit the progressive reaction against it, and to mask the continuing divorce between ideology and practice in the business of knowledge, aid and development.

NOTES


Reflecting back on the tasks ahead of him as he joined the World Bank, Stiglitz commented: ‘I knew the tasks were difficult, but I never dreamed that one of the major obstacles the developing countries faced was man-made, totally unnecessary, and lay right across the street – at my “sister” institution, the IMF’. See Stiglitz, *Globalization and Its Discontents*, p. 25.

For a good account see Robert Wade, ‘Showdown at the World Bank’, *New Left Review*, II/7, 2001, pp. 124–29. Technically speaking Stiglitz resigned as the Bank’s Chief Economist in November 1999, but stayed on as Wolfensohn’s own ‘special advisor’ until April 2000 – when he was also forced out of that role.


The CPIA-practice has been heavily promoted by the Bank across the donor community and is rapidly becoming a standard. See Barry Herman,


For a critical commentary on the nature of the ‘participation’ characterizing the PRSP process see Frances Stewart and Michael Wang, ‘Do PRSPs Empower Poor Countries and Disempower the World Bank, or Is It the Other Way Round?’, QEH Working Paper Series, http://www.eurodad.org/uploadstore/cms/docs/WBevalMay03.pdf, 2003. In general, groups disagreeing with the neo-liberal point of departure and issuing alternatives tend to be excluded from the debate on the ground that they do not comprehend economics.


Localisation of Knowledge’, in Diane Stone, ed., *Banking on Knowledge*, London: Routledge, 2000, pp. 25-6. This lends support to comments by Bank staff, even those sympathetic to Stiglitz’s views, that he treated the Bank much like a travel agency, neglecting his internal roles of mentoring staff or of directing the research complex. See Robert Wade, ‘Showdown’, p. 129.


28 It should be noted that the size of the tri-annual IDA-replenishment has more or less remained the same over the last ten years as the IDA increasingly relies on its own resources (mainly reflows and investment income) to finance its activities. The latter have risen from 10 percent as a share of total replenishment for IDA-10 (1993-1996) to over 40 percent for IDA-13 (2002-2004).


To the contrary, it is claimed that the ‘return’ of this research is ‘120000 per cent of the return on the typical aid dollar’, which moreover is an ‘under-estimation’ as knowledge can be used year after year with no additional knowledge generation costs, see David Dollar, ‘Some Thoughts on the Effectiveness of Aid, Non-Aid Development Finance and Technical Assistance’, *Journal of International Development*, 13(7), 2001, p. 1004.


Stiglitz, ‘Knowledge for Development’, 1999, p. 14, our emphasis. For Stiglitz, if ideological differences persist, such as the unfortunate insistence by the IMF and US Treasury on capital account liberalization, then ‘science’ is the strongest antidote.


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See Diane Stone and Erik Johnson, ‘The Genesis of the GDN’, in D.
CORRECTING STIGLITZ


46 Ibid., p. 33.


57 Stiglitz, *Economics of the Public Sector*, p. 90.


60 Check out the Initiative for Policy Dialogue at www-1.gsb.columbia.edu/ipd.

