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The Tenacious Optimist

For 50 years Joseph Stiglitz has fought tirelessly against economic orthodoxy in pursuit of sustainable, equitable growth for all. After a half century of successes and setbacks, one thing is clear: he's not done yet.

Peter Wiegand | September 30, 2015



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“The American Dream is dead.” Coming from anyone else, this pronouncement would sound like little more than pompous bombast. But when Joseph Stiglitz says it, halfway through a Q&A at the Museum of American Finance for the launch of his latest book, *The Great Divide*, he does so not with grave self-import, but with vague bemusement.

The museum occupies the former Wall Street headquarters of the Bank of New York, which opened its doors at the end of 1928, less than a year before the Black Tuesday crash plunged the country into the Great Depression. It's a fitting location for the launch of the latest book by a man who has built a reputation as one of the most incisive critics of global economic and financial policy, often from within its very halls of power.

Winner of the John Bates Clark Medal, former chair of the Council of Economic Advisors, Nobel laureate, former chief economist and senior vice president of the World Bank, and, for the past 15 years, University Professor at Columbia, Joseph Stiglitz has established himself over a 50-year career as one of history's most influential economists. In a 2006 survey of the most cited articles in the field, Stiglitz sits at the very top, the author of six of the 146 papers, an honor shared by only two others.

JOSEPH STIGLITZ ON THE BIGGEST CHALLENGES IN THE NEXT 100 YEARS:

“Climate change and growing inequality. I'm hopeful — not confident — that there will be social innovations that will enable us to address [these] two major challenges.”

Never content to keep to the cloistered halls of the academy, Stiglitz has emerged in the past two decades as a unique figure — a French-style public intellectual with a peculiarly American penchant for numbers. Regularly selling out engagements around the globe, Stiglitz has campaigned tirelessly on behalf of a simple, if radical idea: that inequality, poverty, and economic instability are not fates meted out by an inscrutable, invisible hand, but the results of concrete policies — that we get the world we choose.

Privilege and Poverty

Born in 1943, Joseph Stiglitz was raised in a small brick home in Gary, IN — the once “Magic City” now a crumbling Rust Belt ghost town. “Growing up in Gary,” he asserts, “you just couldn’t but notice the poverty, you couldn’t but notice the discrimination. It was impossible not to see that something wasn’t right.”

Founded just 40 years earlier by U.S. Steel, Gary’s fate was bound up with the steel industry. While pay jumped in the early 1940s due to the tight labor market and high demand of the Second World War, wages plummeted after the war’s end, and a continuous cycle of layoffs and strikes took its toll on the city’s workers. “Every three or four years everyone’s parents would be out of work,” Stiglitz remembers. “You felt it as a kid. You could see it in the other children, that they’d been through tough times.”

Stiglitz’s father eked out a middleclass lifestyle for the family as an independent insurance agent, assisted by his wife. Stiglitz and his two siblings were looked after by Fannie Mae Ellis, a black woman raised in the South who had left school for work after the sixth grade. That fact stood out in a household committed to education and gave the young Stiglitz his first glimpses of the human toll of discrimination. “The expectation when I was growing up,” Stiglitz relates, “was you were going to go to college. Why this kind, bright person only had a sixth grade education... I didn’t have the words to describe it, but it struck me, and it bothered me.”

Like many of the industrial towns that sprung up along the river valleys of the Midwest, Gary had become a magnet for African Americans escaping rural poverty in the South. In the 1950s, *Ebony* magazine proclaimed Gary the city in America in which “the negro comes closest to first-class citizenship,” but throughout Stiglitz’s childhood the vast majority of the city’s black residents were crowded into just a few neighborhoods, earning only half the wages of their white counterparts. In 1949, Gary became the site of an early, armed clash between activists and opponents of the nascent civil rights movement, just a mile from the Stiglitzs’ front door.

Raised in what he would later call a “house of ideas,” Stiglitz remembers his parents telling him at a young age that money would never make him happy. Instead, his mother encouraged him to “use your brain, and serve.” He excelled at school, demonstrating a rare facility with mathematics. At 12, having outstripped the rest of his class, his teachers began giving him college-level textbooks to study independently. By the next year he had decided to become a professor. “I knew that education was important,” Stiglitz says now, “but more than that, what I wanted was to advance knowledge.”

His strong grades would win him a scholarship to Amherst in 1960, where he initially majored in theoretical physics, but the early lessons of Gary never left him. Late in his third year, at the urging of several of his professors — including Arnold Collery, who, as dean of Columbia College years later, would lead the effort to admit the first women to the college — he switched his major to economics, seeking answers to the questions that defined his youth.

While at Amherst, Stiglitz became involved in the civil rights movement, using his position as student council president to organize an exchange with Morehouse College, the historic black college in Atlanta from which Martin Luther King Jr. had graduated 15 years earlier. “What stood out,” Stiglitz remembers, “was the gap. We knew we were privileged in some ways, but this was the finest black college, and you just couldn’t compare it. It was

JOSEPH STIGLITZ ON
THE PROMISE OF
EDUCATION:

“The philosophy that Columbia has long had — that we want to make the best education available to the people who have the best ability to make use of it, regardless of their background — is essential for addressing the problem of inequality.”

such a concrete manifestation of inequality.”

That fall, Stiglitz left Amherst without completing his degree to pursue his PhD at MIT. He would finish his generals in just a year and a half, studying under four subsequent Nobel Prize winners. In 1966, at the age of 23, he submitted his dissertation — the first of his major writings on inequality — and was appointed assistant professor of economics at MIT. Just four years later he would become one of Yale’s youngest full professors.

Upending Conventional Wisdom

As Stiglitz rapidly ascended the academic ladder, he began traveling widely, working as a researcher and government advisor in Southeast Asia and East Africa. “The poverty was mind-boggling,” he remembers. “Even coming from Gary, you could never imagine.” Stiglitz had long been skeptical of the efficient market models he encountered during his studies, but Kenya drove the point home forcefully. “The dominant view in Western economics is markets work, and the only reason they don’t work is because the government interferes. When I got to Kenya,” he recalls, “there were no minimum wages, no labor unions, but unemployment was everywhere. The theory was clearly wrong and the question was why.”

His first insights into the answer to that question would come from another question, posed to him by the newly independent Kenyan government. Eager to spur growth through an investment in education, the government turned to Stiglitz to determine the best strategy. “The dominant model at the time was that education provided increases in productivity through raising human capital,” he says. “But what I found there was that it was also being used as a screening device, determining who got jobs and who didn’t.” Unable to directly assess the skills of potential employees, employers fell back on educational credentials to sort out candidates, creating distortions in the markets for both education and employment.

What Stiglitz had identified in the practice of screening — for which he would win the Nobel some 32 years later — was a strategy for coping with imperfect information, and imperfect information had a profound impact on market outcomes. By removing the single assumption of perfect information, Stiglitz had begun to show how the classical models, which predicted rational, efficient markets, could actually produce wildly unstable outcomes with multiple points of equilibrium, none necessarily efficient, and, sometimes, no equilibrium at all.

Armed with this seminal insight, Stiglitz embarked on a virtual Sherman’s March across the field of economics, demonstrating the failures of the classical models by shining a light on phenomena they predicted could not exist. The seeds sown during his youth bore spectacular fruit in papers demonstrating, against conventional wisdom, the economics behind the failures of insurance markets (his father’s industry) and the persistence of the unemployment and racism that had surrounded him in Gary. At the same time, he became an early pioneer in the economics of sustainability, with a keen eye on growth and ending the crippling poverty he found in the developing world.

He published relentlessly throughout the ’70s and ’80s, as many as 17 papers a year. When the first of six planned volumes of his Selected Works was published in 2009, it ran 768 pages. The second topped 900. “The thing you have to understand about Joe,” says Geoff Heal, the Donald C. Waite III Professor of Social Enterprise at Columbia Business School and a longtime friend and collaborator, “is that he has this inexhaustible energy, and he brings that energy to everything he does.”

It was during this time that Stiglitz met Bruce Greenwald, with whom he would strike up a friendship and collaboration that has endured nearly 40 years. Greenwald, today Columbia Business School’s Robert Heilbrunn Professor of Finance and Asset Management, recalls their first meeting in

1976 at a conference at MIT, where he was finishing his PhD. “I walked into the room, and Joe was sitting all the way in the back while someone was delivering a paper, just writing frantically,” Greenwald remembers. “Back then he had two habits that immediately marked him as absolutely brilliant. When he’d take a break from writing, instead of tucking his pencil behind his ear, he’d hang it out the side of his ear. And when he was thinking, he’d pull up the collar of his undershirt and just chew on it. He’s obviously cleaned his act up since then.”



Friends and collaborators for nearly 40 years, Joseph Stiglitz and Bruce Greenwald have authored several dozen articles and two books together. “In the last generation, there were maybe four economists who really changed the way people thought about the world,” Greenwald says. “In our generation, someone with that reach, with that stature — there’s only Joe.” Watch a video about the course Stiglitz and Greenwald co-teach on globalization.

This light-hearted ribbing flows through a relationship that can only be described as the odd couple of modern macroeconomics. Despite several dozen articles and two books authored together, Stiglitz and Greenwald take up opposite sides of the political spectrum. “What the disagreement really comes down to is this,” Greenwald asserts. “We agree on the core economics, but he just has this endless hope that government institutions are going to work in the face of all the evidence, and they’ve driven him crazy his whole life.”

A Professor in Washington

It must come as no surprise that such a committed idealist would eventually make his way to Washington, DC. Greenwald remembers when Stiglitz first got the call to join then newly elected President Bill Clinton’s Council of Economic Advisors (CEA). Greenwald, the son of a career diplomat who had himself served as a consultant on government projects, knew the pitfalls of Washington all too well, but Stiglitz would not be deterred. “To his credit,” Greenwald says, “he really did it because he felt he had to do good in the world. I’ve always been able to repress that impulse.”

Stiglitz locates the moment in which his fate was decided far earlier, when he was still an undergraduate. “When I left physics for economics,” he remembers, “it was because I was concerned about social issues, and I was vain enough to think maybe I could have some effect. And then — here’s this opportunity to be right in the belly of the beast, to be an observer and an inside player, to learn a lot.”

While Stiglitz went to Washington hoping to effect changes there, it’s not clear he understood the changes Washington itself would work on him. He joined the CEA under Laura D’Andrea Tyson, its first female chair. Energetic and telegenic, Tyson quickly became a lightning rod for political opposition to Clinton. In 1995, with Republicans threatening to defund the council, Tyson left for the newly created National Economic Council, leaving Stiglitz to take over the embattled CEA. Upon his promotion, the Times characterized him as a “literal graybeard... known for his original ideas and mathematical arguments on issues of interest mostly to other economists.”

If Stiglitz had been cast as the demure, if quirky, academic, he quickly proved himself anything but. In 1997, following two years as head of the CEA, he moved on to become the chief economist and vice president of the World Bank. While Stiglitz had encountered political battles within the Clinton administration, his time at the World Bank would change everything. When he resigned the post in 1999, the Times called him “the most outspoken voice” in the then-raging debate over development aid in Washington, asserting that he had publicly “antagonized” officials within both the International Monetary Fund (IMF) and the Clinton administration.

JOSEPH STIGLITZ ON
VISIONARY LEADERS:
“It’s really important to have people who are envisioning where we will be in the next 10, 20, even 100 years. To respond to globalization, we have to think about what it means, including the rules of the game. What is a system of global governance? How are we going to interact with other countries? How do our financial systems work together?”

The crux of Stiglitz’s disagreements lay with the US Treasury and the IMF’s response to the 1997 Asian financial crisis, which forced public austerity and high interest rates on the stricken economies. The crisis began in Thailand after the country was forced to float its currency for lack of adequate foreign reserves, and quickly spread across the region, producing skyrocketing unemployment and surging food prices. Stiglitz remembers attending the 1997 meeting of the finance ministers of ASEAN+6 in Malaysia where the head of the IMF asserted that faltering Asian economies had to “take the pain.” Horrified, Stiglitz took the podium, declaring that there would be “riots in the street in six months.” It only took five. Over the course of just a few days in early May 1998, riots and ethnic violence racked Indonesia, leaving over 1,000 dead before toppling the country’s 30-year dictatorship.

The crisis was a watershed moment for Stiglitz, prompting him to turn away from the sequestered debates of Washington to the broader public. “Growing up in public schools in this country, we talked a lot about democracy,” Stiglitz explains. “What I saw then didn’t line up with what I’d been taught, and it became clear that if we were ever going to change this approach, we had to change the terms of the debate.” His public criticisms of the IMF stirred controversy in both the policy and academic realms, ultimately leading to his departure from the World Bank.

The World’s Professor

In 1999, Stiglitz returned to Stanford, where he’d held an appointment since 1988, but his stay was brief. Eager to remain close to the international policy debates he’d become engrossed in, Stiglitz moved to Columbia in 2001. The University offered access to the worlds of global policy and finance and a home for his new project, the Initiative for Policy Dialogue, a think tank devoted to fostering the types of conversations he’d found absent in Washington.

Fast on the heels of his arrival at Columbia, the Royal Swedish Academy of Sciences announced that he would share the 2001 Nobel Prize in Economics with Michael Spence and longtime friend and collaborator George Akerlof, for laying the foundations of the theory of markets with asymmetric information. The prize brought a sudden rush of celebrity, only heightened the following year with the publication of *Globalization and Its Discontents*, his first popular release.

Anya Schiffrin, Stiglitz’s companion for the past 15 years and an adjunct professor at the School of International and Public Affairs, recalls the chaotic atmosphere that reigned after the announcement, as a crowd began to congregate around him. “I looked at him, and I remembered this koan — ‘before enlightenment: chop wood, carry water; after enlightenment: chop wood, carry water’ — so that’s what we did.”

Now 72, Stiglitz shows no sign of slowing down. He continues to teach

Globalization and Markets with Bruce Greenwald to Executive MBA students and to take on new PhD students. Shashi Srikantan '13 remembers students rushing the elevators after class to ride down with him, peppering him with questions the entire way. "I was completely taken aback by how humble and approachable he was," she remembers. Stiglitz speaks warmly of his students, many of whom have climbed the ranks of government around the world, including Janet Yellen, one of his first

students at Yale. "I get so much pleasure in seeing how they go through life, their intellectual development, their professional successes, their personal and family happiness."

Stiglitz continues to add to his prodigious academic output a string of best-selling popular press books—taking on the Iraq War, the 2008 financial crisis, rising income inequality, and fair trade — as well as regular op-eds in the New York Times and recurring columns with Project Syndicate and Vanity Fair. A May 2011 article in the latter, "Of the 1%, by the 1%, for the 1%," would provide the rallying cry for that fall's global Occupy protests. "For Joe," Geoff Heal remarks, "all of this public engagement is really just an outgrowth of the relationship he has with his students. He wants to teach the world how economic systems work."

Increasingly, he's not too far from that goal. Stiglitz continues to travel more than 200 days a year, advising government ministers and industry leaders on economic policy. In just two months last spring he delivered speeches before the Institute for New Economic Thinking in Paris, the World Economic Forum on Latin America in Mexico, the Chinese Development Forum in Beijing, and the Festival of Economics in Italy, and stumped with Elizabeth Warren and Bill de Blasio for a new blueprint for economic growth in DC.

Despite five decades as one of the most trenchant critics of the world's economic and political systems, Stiglitz remains a resolute optimist. "When you've been in this business as long as I have, so much of what you're trying to do is just to turn the dial a little bit," he says. "It takes a while, but what you're doing is starting a conversation. I know that things can change — I've seen it — but they won't change if people aren't aware of them. I still have hope."



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