

THE WALL STREET JOURNAL.

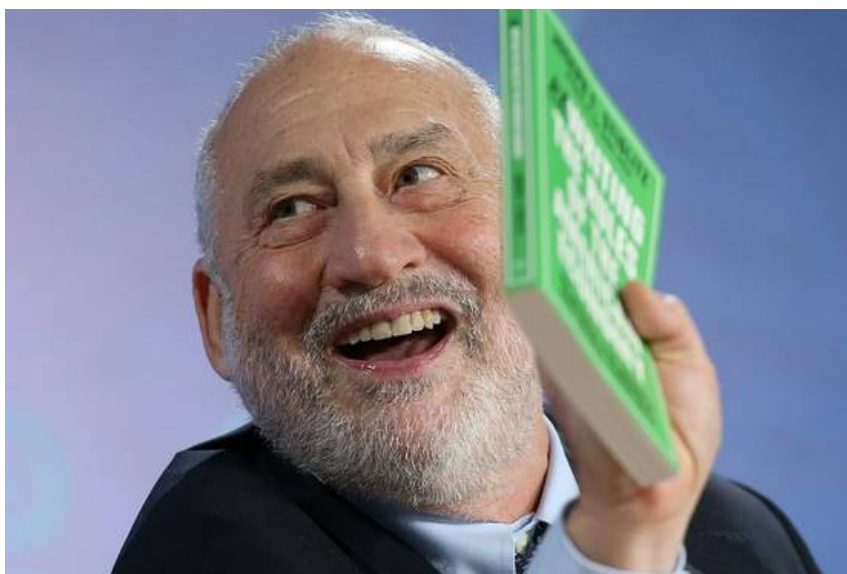
This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<http://blogs.wsj.com/chinarealtime/2016/01/12/china-needs-tax-fueled-stimulus-nobel-prize-economist/>

CHINA REAL TIME REPORT

China Needs Tax-Fueled Stimulus: Nobel Prize Economist

Jan 12, 2016 1:27 pm HKT



China needs to reopen the stimulus playbook, says Nobel Prize-winning economist Joseph Stiglitz. *ERNESTO ARIAS/EUROPEAN PRESSPHOTO AGENCY*

China's recent market turbulence reflects Beijing's struggles to support the world's second-largest economy, weighed down by debt and overcapacity at home and weaker demand abroad.

One way to provide that support, said Nobel Prize-winning economist Joseph Stiglitz, would be to increase government demand, as China did with a massive stimulus program when the global financial crisis hit.

“People said that we tried it in 2008 and 2009, and it was debt-financed government spending. And it worked. If China had not done what it had done, the world would be in a

depression,” he said during a media briefing at a UBS Greater China Conference in Shanghai on Monday.

This time, though, he recommends funding the stimulus differently. The last round of big spending left China with a mountain of debt, as well as excess capacity in steel, coal and real estate that’s compelling Beijing to accelerate industrial consolidation.

“Excess capacity is a reflection of mistakes made in the past,” Mr. Stiglitz said. “The real question is looking forward, making sure that resources are invested well in the coming years.” This time around, instead of using debt to cover increased government spending, he recommends rolling out a property tax, capital-gains tax and a carbon tax, the last of which would have the added benefit of spurring demand for energy-saving technologies.

China is trying to balance the roles the market and government play in the economy, Mr. Stiglitz said—but as it moves away from the old regime in which the state had too big a role, it needs to take lessons from the failures of laissez faire.

“We know from the experiences of economies like America’s, when the government had too little role you had recessions, depressions and crises. So you do need a balanced role,” said Mr. Stiglitz, a frequent visitor to China. Last month he met with Premier Li Keqiang and offered the country’s economic planners his views on the government’s latest five-year plan to guide development.

Among the issues that call for the government’s active participation, Mr. Stiglitz said, are environmental problems, inequality, urbanization, health and financial instability.

Beijing should stop devoting so much energy to vanity projects like the recent push to get the Chinese yuan named a world currency, he said, and instead focus on ensuring the financial sector is able to support new entrepreneurs, small and midsize enterprises and mass innovation.

“All these are much more important than the internationalization of the renminbi,” said Mr. Stiglitz, using another name for the yuan.

—*Esther Fung. Follow her on Twitter @estherfung.*

Share this:

CHINA SLOWDOWN ([HTTP://BLOGS.WSJ.COM/CHINAREALTIME/TAG/CHINA-SLOWDOWN/](http://blogs.wsj.com/chinarealtime/tag/china-slowdown/))