

Designing Policies for Sustainable Growth

Symposium on Macro Policies and economic
Growth

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Designing Policies for Sustainable Growth and Ensuring Robust Economic Performance Today

- Among central issues addressed in the Government Work Report by the Premier, March 5, 2025
- And will be critical in the formulation of the Fifteenth Five Year plan
- Remarks intended to contextualize, emphasize, and amplify certain critical issues
 - With emphasis on how best to boost aggregate demand (going beyond just consumption) today in ways that lead to long term sustainable growth

Goals of economic policy

- Increase wellbeing of all Chinese citizens today and in the future
- Entailing sustainable policies—environmentally, economically, socially, and politically
- Promoting cooperation with other countries—necessary if we are to address critical global problems, like climate change, and if we are to have a rules-based international order

Critical challenges today

- Green transition
- AI
- Global reordering—“earthquake” in global order, breaking of international law, international economic rules

Opportunities as well as challenges

- Not addressing climate change presents existential risk—even greater with US withdrawing from Paris agreement
- Green transition and AI could provide foundations of increasing standards of living
- But AI also presents enormous risks, including increased inequality, increasing and increasingly dangerous pollution of information ecosystem, polarization, concerns about privacy, fundamental misalignment of private incentives and social interests

Immediate problem for China

- Potential decrease in aggregate demand—from global slowdown, result of US trade war, US slowdown (loss of consumer confidence, mass layoffs, policy uncertainty, violations of rule of law, etc.)
- Sectoral problems of unemployment because of robotization and AI
- Lingering effects of property problem

China has been remarkably successful on supply side—including innovations

- Not just over past 45 years, but even more recently
- More than 1/3 increase in GDP since my last attendance in CDF in 2019
- Innovations in solar panels/renewable energy and EV have been vital in enabling world to address climate change
 - Large market
 - Big investments in human capital—engineers
 - Planning—beyond short run profit maximization
- **Need to balance supply side measures with demand side measures**

An agenda for sustainable demand stimulus

1. Public investment centered on wellbeing
 - Environment, health, education
 - Future wellbeing will be more dependent on these than on increase in material goods
 - **Ever increasing production of material goods will not deliver wellbeing and is not feasible if we are to remain within planetary boundaries**
2. Increased share of wages and household income in GDP
 - Low ratio distinctive aspect of Chinese economy
 - Contributes to supply/demand imbalance
 - Multiple policies: higher government wages, higher minimum wages, higher corporation taxes with proceeds redistributed especially to poorer households or invested in public investments or social protection
 - **Current policies need to be sustained and broadened**
3. Better social protection
 - Triple benefits: better security (wellbeing), enhanced direct spending, reduced need for precautionary savings (and hence, increased spending)

Demand stimulus agenda

4. Even stronger investments in innovation—including universities
 - Taking advantage of decreased funding for sciences in US, and other tensions in American universities
 - Basis of long-term growth and prosperity: double benefits, today and in the future
 - Imperative for successful green transition
5. Extend, reshape, and strengthen Belt and Road Initiative, including by incorporating health, education, and environmental initiatives
 - Massive gap left by withdrawal of US support—with impending deaths of large numbers
 - Again: double benefit, promoting cooperation necessary for solving global problems (climate change, global public health)
6. Strengthen local public finances
 - Risk of contractionary actions at local level offsetting expansion at national level
 - Current model of financing has long been broken—need to replace with sustainable and reliable sources (taxation, rules-based government transfers)

Other key ingredients to a demand stimulating policy regime

- Policy certainty, reliability, working within a strong rule-of-law framework
 - Uncertainty is bad for investment, consumer confidence
 - Adverse effects compounded by inevitable uncertainties posed by climate change and other uncertainties beyond China's control, e.g. associated with geopolitics
 - Good regulatory regime can promote quality growth and societal wellbeing
 - We've seen dangers of excessive pollution, failure of platforms to act in a socially responsible way
 - Good regulation combined with public R & D investment helps drive innovation directed at societal priorities

China can afford much more aggressive demand stimulation

- **Great risks of not doing so—real question, can it afford not to undertake bold actions**
 - China's global imbalances are not sustainable either economically or politically
 - Strong expansion of domestic aggregate demand will be required
 - But the design of policies matter—**need to help facilitate economic restructuring**, with manufacturing and consumption of material goods a smaller fraction of GDP
 - Above agenda is intended to do that
- China's government's debt GDP ratio is low, even lower if one takes into account its reserves (as one should)
- China's tax GDP ratio is low: opportunities for substantial tax increases, some of which would improve economic efficiency, equity, and societal wellbeing
 - Environmental taxes, capital gains taxes, more progressive income taxes, corporation taxes, especially on monopoly profits, financial transactions taxes designed to discourage excessive speculation
- Important economic principle: balance budget multiplier—increasing taxes and expenditure in tandem increases GDP
 - and with agenda described above, with ancillary benefits of wellbeing and increases in long-term growth

Macro policies for sustainable economic growth

- Key to long term economic growth is a strong macroeconomy today
- Key to a strong macroeconomy today is the design of strong demand stimulating measure
- Such measures can be designed in ways that enhance economic performance and societal wellbeing today *and* in the future
- Attempted to lay out an agenda that can do that, an agenda that China can afford to undertake now