

PAUL KRUGMAN et J. STIGLITZ
une brève revue

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Paul Krugman's view on economic crisis



Born in 1953; Ph.D. in 1977 from MIT.
 Worked at the White House for the Council of Economic Advisors in 1982.
 John Bates Clark Medal in 1991.
 Nobel Prize 2008
 NY Times columnist. Currently at Princeton.
 Krugman's main focus has been on international trade. "New trade theory" deals with the "consequences of increasing returns and imperfect competition for international trade."
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Paul Krugman's view on globalization

- In the 1980s, openness to trade was widely believed to reduce the likelihood of financial crises.
- Today, growing global integration does predispose the world economy toward more crises because it creates pressures on governments to relax restrictions.
- Economies are doing better in good times but are far more vulnerable to sudden crises due to rapid capital flight. The ride will continue to be very bumpy for many years to come!

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Krugman's view on Asia's 1997-98 economic crisis

The logic of catastrophe was pretty much the same in Thailand, Malaysia, Indonesia and South Korea. (Japan is a very different story.) In each case investors--mainly, but not entirely, foreign banks who had made short-term loans--all tried to pull their money out at the same time.

The result was a combined crisis:

1. a banking crisis because no bank can convert all its assets into cash on short notice;
2. a currency crisis because panicked investors were trying to convert baht or rupiah into dollars.
3. a governance crisis

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Source: NY Times



Paul Krugman's view on Asia's crisis

"Was the crisis a punishment for bad economic management?"

Like most *clichés*, the catchphrase "**crony capitalism**" underlies something real: excessively cozy relationships between government and business really did lead to a lot of bad investments.

The still primitive financial structure of Asian business--too little equity, too much debt and too much of that debt consisting of soft loans from accommodating banks--also made the economies peculiarly vulnerable to a loss of confidence"

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Biographie

- **Paul Robin Krugman**, né le 28 février 1953 à Long Island dans l'État de New York, Ph.D Doctorat MIT(University Yale, Massachusetts Institute of Technology)1977.
- Il enseigne l'économie & les relations internationales à l'Université Princeton

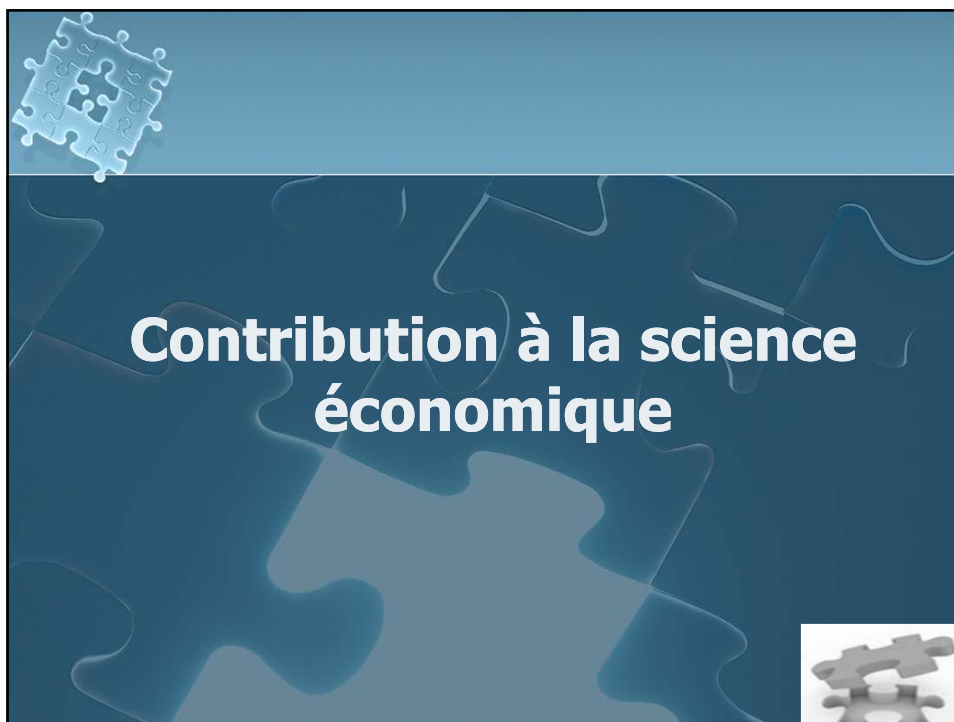



Distinctions

- 1980 **Krugman** s'est fait connaître à la fin des années, où il s'attaque entre autres aux contresens économiques colportés par les « think tanks ». Il a également su anticiper la crise asiatique de 1997.
- 1982, travaille à la Maison Blanche pour le conseil économique
- 2000 Il tient également une chronique, pour le New York Times ce qui lui a permis de devenir un « faiseur d'opinion »

Il s'y est illustré comme l'un des critiques virulents de George W. Bush. sur la crise financière qui s'abat aux Etats-Unis et présente son dernier livre : "L'Amérique que nous voulons"





Contribution à la science économique



1-THEORIE DU COMMERCE INTERNATIONAL

- ✓ Néo-keynésien, en économie géographique, initiations à la nouvelle théorie du commerce international qui repose sur le commerce intra-firme et intra-industrie, les effets de réseau, et les situations de concurrence imparfaite.
- ✓ Il a participé à la conception de la "new trade theory", qui traite des conséquences de l'augmentation des profits et de la concurrence imparfaite dans le commerce international

2-Macroéconomie internationale

- ✓ Krugman est un économiste influent dans le domaine de la finance internationale et de la macroéconomie internationale. En 1979, il publie une modélisation de crise monétaire dans le *Journal of Money, Credit, and Banking* montrant que les taux de change fixes vont se terminer par des attaques spéculatives. Cet article est considéré comme l'une des principales contributions de la « première génération » des modèles de crise monétaire.
- ✓ Il est aussi le promoteur de la « troisième génération » des modèles de crise de change



3- Inégalités des revenus

- Pendant les années 1990 il écrit en particulier sur la croissante inégalité des revenus engendrée par la « nouvelle économie » américaine des années 1990. Il en attribue la cause, partiellement à des changements technologiques mais aussi et surtout à l'affaiblissement de l'État-providence depuis les années Reagan



Récompenses



- ✓ 1991, Prestigieuse médaille John Bates Clark de l'*American Economic Association* (attribuée tous les deux ans à un économiste de moins de quarante ans ayant apporté une contribution substantielle aux sciences économiques)
- ✓ 2008, le « prix Nobel » d'économie pour ses travaux sur le commerce international en concurrence imparfaite et en économie géographique en montrant « les effets des économies d'échelle sur les modèles du commerce international et la localisation de l'activité économique ».



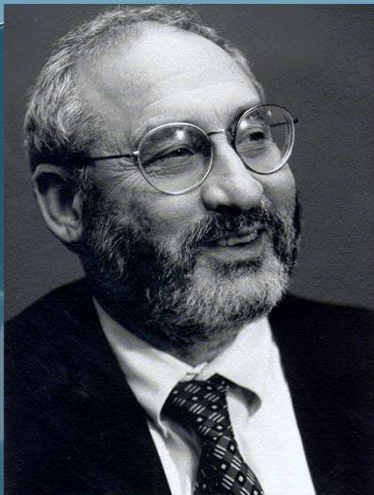
La vision de Paul Krugman sur



- **la globalisation** : Aujourd'hui l'accroissement des interdépendances un facteur aggravant de la volatilité et des crises. Les économies sont certainement plus efficaces mais sont beaucoup plus vulnérables aux crises brutales du fait de la volatilité des capitaux.
- **crise asiatique de 1997-1998**: Il a anticipé l'inévitable crise asiatique en remettant en cause la structure financière des entreprises caractérisée par trop peu d'émission d'actions et beaucoup trop de dettes de C.T rendant le système économique asiatique très vulnérable aux mouvements de capitaux à court terme; Rôle du capitalisme de connivence et de la corruption!
- **Crise 2008** : il anticipe l'émergence de la crise financière



Joseph Stiglitz's views



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Stiglitz's core ideas

Poverty is an « affront to human dignity »

- G7 governments urge liberalization on developing countries while maintaining trade restrictions and pushing intellectual property protection into the WTO.
- The IMF's policies, in part based on the outworn presumption that **markets**, by themselves, lead to efficient outcomes, failed to allow for desirable government interventions in the market.
- Asymmetries of information prevent markets from full efficiency. Government and market are complementary and there is an **important role**, if limited, for government to play.

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What is asymmetry of information?

- It is the difference in information between two economic agents within an economic relation (e.g.: « the worker and his employer, the lender and the borrower, the insurance company and the insured »)
- According to Stiglitz, financial markets cannot regulate themselves because anyone do not have the same information at the same moment. Therefore the aim is to find the best structure to regulate markets (and not to let them work by themselves).

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Asymmetry of information's consequences

- Deregulation will **not** promote financial development when information is asymmetric and competition inadequate. The economic efficiency is not secured. It will spur corruption and create an oligarchic elite that opposes the emergence of competitive markets.
- The partisans of the « Washington consensus » overlook the importance of economic and corporate governance, underestimate the difficulty of building institutions, and forget that many countries lack the sophisticated public administrations needed to ensure adequate competition.

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Challenging the IMF

- To be an **honest broker**, the only remaining assets of the Fund are... its political legitimacy and its intellectual authority.
- Increased transparency at the IMF is essential. Decisions there are made on the basis of ideology and bad economics (sic!). G7 monopoly.
- When crises hit, the IMF prescribes outmoded, inappropriate standard solutions, without considering the socio-political consequences.
- No discussions of the consequences of alternative policies. Ideology guides policy prescription...

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Joseph E. Stiglitz on the IMF...

- **Asymmetries of information** prevent markets from full efficiency.
- Government and market are complementary and there is an important role, if limited, for government to play.
- The IMF's policies rely on the outworn presumption that markets, by themselves, lead to efficient outcomes. They failed to allow for **desirable government interventions** in the market, which can make everyone better off.

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Joseph E. Stiglitz on the IMF...

- When crises hit, the IMF prescribes outmoded, inappropriate, if standard solutions, without considering the effects they would have on the **people** in the countries told to follow these policies.
- No discussions of the consequences of alternative policies. Ideology guides policy prescription. IMF structural adjustment policies worsen **poverty**.
- There is no Wall Street or IMF conspiracy. There is ideology at work and antidemocratic policy-making.

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J. Stiglitz: The search for a new economic paradigm: The wrong and dangerous ***efficient markets hypothesis***

- The financial crisis of 2007-10 is rooted into wrong assumption: markets could be self-regulated; markets are efficient and self-correcting; market prices fully reflect all the relevant information
- Model risk > Market risk: small changes in assumptions lead to large changes in conclusions

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