Joseph Eugene Stiglitz

Joseph Eugene Stiglitz was born in Gary, Indiana on February 9, 1943 to Jewish parents, Charlotte and Nathaniel Stiglitz., He is at present a professor at Columbia University. He was awardwd with the Nobel Memorial Prize in Economic Sciences in 2001 and the John Bates Clark Medal in 1979.

In addition to making numerous influential contributions in economics, Stiglitz has played a number of policy roles. He served in the Clinton Administration as the chair of the President's Council of Economic Advisors (1995 – 1997). At the World Bank, he served as Senior Vice President and Chief Economist (1997 – 2000), in the time when unprecedented protest against international economic organizations started, most prominently with the Seattle WTO meeting of 1999. He is known for his critical view of the management of globalization, free-market economists (whom he calls "free market fundamentalists") and some international institutions like the International Monetary Fund and the World Bank.

From 1960 to 1963, he studied at Amherst College and in his own opinion, "the intectually the most formative experiences occurred during these three years… At the time, there were three High Churches in the economics profession: Chicago on the right and Cambridge, U.K. on the left, with MIT being in the center". And Stiglitz was at all three places. He went to the Massachusetts Institute of Technology (MIT) for his fourth year as an undergraduate, where he later pursued graduate work. His undergraduate degree was awarded from Amherst College. From 1965 to 1966, he moved to the University of Chicago to do research under Hirofumi Uzawa. He studied for his PhD from MIT from 1966 to 1967. The particular style of MIT economics suited him well - simple and concrete models, directed at answering important and relevant questions. From 1966 to 1970 he was a research fellow at the University of Cambridge. In subsequent years, he held academic positions at Yale, Stanford, Duke, Oxford, and Princeton.

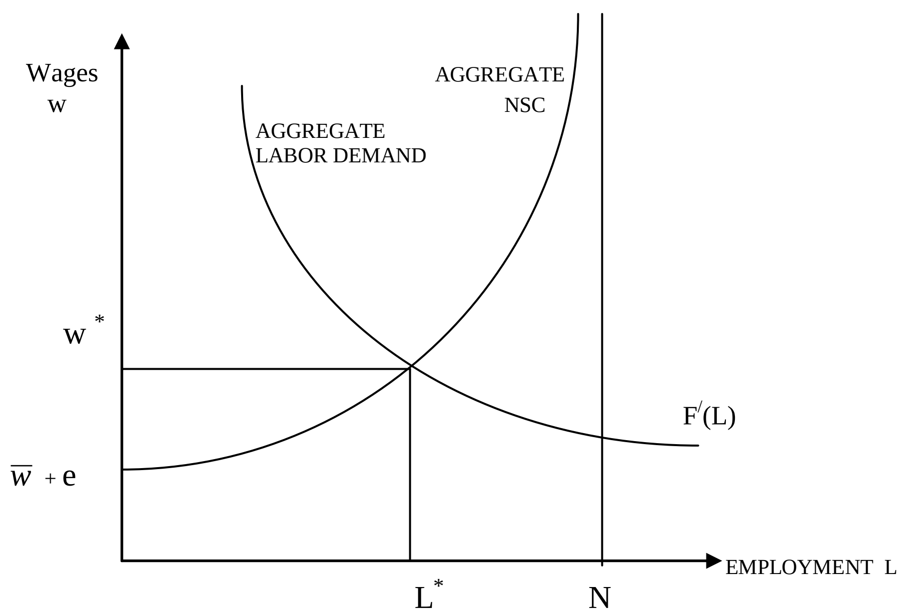
His early research centered around growth, technical change and income distribution. His subsequent works concentrated on economics of uncertainty, information asymmetries and more generally, imperfect information. He is a critique of neoclassical economics and new classical economics and holds that "whenever markets are incomplete and/or information is imperfect (which are true in virtually all economies), even competitive market allocation is not constrained Pareto efficient".

And he is also in favour of *active economic policies*. He holds that "whenever there are “externalities”—where the actions of an individual have impacts on others for which they do not pay or for which they are not compensated—markets will not work well and … these externalities are pervasive, whenever there is imperfect information or imperfect risk markets… The real debate today is about finding the right balance between the market and government. Both are needed".

Perhaps the most cited and influential work by Professor Stiglitz is the one on "**Monopolistic Competition and Optimal Product Diversity"** (AER, 1977), jointly with Avinash Dixit. This paper formulates a canonical model of the earlier work of Chamberlin on monopolistic competition in terms of a structure which is easy to use and also captures the key aspects of Chamberlin's model. The Dixit-Stiglitz approach has become the 'workhorse model' incorporating monopolistic competition, increasing returns to scale and endogenous product variety. In fact, the Dixit-Stiglitz structure has been and is being used widely in several disciplines like international trade theory, geographical economics, macroeconomics and growth theory.

Out of the other innumerable and important contributions by Stiglitz, only two will be highlighted. The first one is on *credit rationing* [**Stiglitz and Weiss** (AER, 1981)]. Perhaps the most basic tenet of economics is that market equilibrium entails supply equalling demand; that if demand should exceed supply, prices will rise, decreasing demand and/or increasing supply until demand and supply are equated at the new equilibrium price. So if prices do their job, rationing should not exist. However, credit rationing and unemployment do in fact exist. They seem to imply an excess demand for loanable funds or an excess supply of workers. Banks making loans are concerned about the interest rate they receive on the loan, and the riskiness of the loan. This may result in a situation where the expected return of the bank increases less rapidly than the interest rate;

and may actually decrease beyond a point which is the "bank-optimal" rate, $\hat{r}^*$. Both the demand for loans and the supply of funds (determined by the expected return) are functions of the interest rate and it is conceivable that at $\hat{r}^*$ the demand for funds exceeds the supply of funds. Yet it is the *equilibrium i*nterest rate! The second one is on *equilibrium unemployment* [**Shapiro & Stiglitz (**AER 1984)]. Involuntary unemployment appears to be a persistent feature of many modern labor markets. Why do then wages not fall to clear labor markets? The Shapiro-Stiglitz model of efficiency wages argues that workers are paid at a level that dissuades shirking. This prevents wages from dropping to market clearing levels. Full employment cannot be achieved because workers would shirk if they were not threatened with the possibility of unemployment. Because of this, the *curve* for the non-shirking condition (NSC) relating no-shirking wage rate (w) to employment (L) is upward-rising and asymptotic to the vertical line at full employment, N (This curve is labeled AGGREGATE NSC). The downward-sloping AGGREGATE LABOUR DEMAND curve is the usual marginal product of labour ($F^/(N)$) curve. The two curves intersect at the equilibrium employment level, L^*, which is below N. Thus equilibrium is characterized by unemployment and this *unemployment is involuntary*, since those without jobs would be happy to work at w* or lower, but cannot make a credible promise not to shirk at such wages.



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