Your Excellency, Mr. President; the Chair, the Honorable Minister of Finance; the Honorable Governor of the Bank of Uganda and the Honorable Deputy Governor, Bank of Uganda,

I assume that the Bank of Uganda has asked me to be a discussant hoping I would raise questions they do not feel comfortable raising. I will take a cue from them and ask Professor Stiglitz questions hoping he will give responses that I do not quite feel comfortable giving.

I shall focus on four issues and I will ask four questions. The first concerns the Clinton years. The second is about Professor Stiglitz definition of the problem, as one of "market failure." Thethird question focuses on the contemporary global crisis; I call for a more comprehensive definition of the crisis, from the point of view of society and not just the state and market binary that framesProfessor Stiglitz's discourse. Finally, I ask that Professor Stiglitz situate our own crisis – the crisis of Uganda and East Africa – within an expanded frame.

1. The Clinton Years

Deregulation of the financial system in the US began with the Clinton administration's repeal of key sections of the Glass-Steagall Act of 1933. That Act had separated commercial and investment banking since the Great Depression era. The repeal of that Act was key to the deregulation of derivatives. In 2008, Clinton denied responsibility for refusing to regulate derivatives. He changed his mind in 2010, thenblaming his advisors, among whom were Treasury Secretaries Robert Rubin and Larry Summers and the Chair of his Council of Economic Advisors, Joe Stiglitz. Larry Summers went on to become President of Harvard University. Joseph Stiglitz went on to be Chief economist of the World Bank and then professor at Columbia University. Summers showed little remorse for his role in the deregulation era. Joe Stiglitz, in contrast, became the best known critic of deregulation.

My *first* question is not new. Academic reviewers of Stiglitz have often wondered when he saw the light: **did Professor Stiglitz oppose deregulation at the time or change his mind when its consequences became clear?**Should we understand his critique of deregulation as foresight or hindsight, foresight in 1996 or hindsight after his time as Clinton's senior policy advisor?

Professor Stiglitz addressed this issue in a book he wrote on the Clinton era, a book titled *The Roaring Nineties: A New History of the World's Most Prosperous Decade*. The question I am interested in was posed by an academic reviewer of the book, Robert Pollin of Department of Economics at University of Massachusetts at Amherst. Let me quote Professor Polin:

"… at what point did Stiglitz, in his role as a senior Clinton policy advisor, become convinced of the severe damage that would result from deregulation? … As one important example, the general tenor of the 1996 Economic Report of the President, written under Stiglitz's supervision as Chair of the Council of Economic Advisors, is unmistakably in support of lowering regulatory standards, including in telecommunications and electricity. This Report even singles out for favorable mention the deregulation of the electric power industry in California—that is, the measure that, by the summer of 2002, brought California to the brink of economic disaster, in the wake of still more Enron-guided machinations."

Why is the question important? Like the rest of us, Professor Stiglitz has a right to change his mind. The point of asking him this question is to have some information about how his thinking has evolved on this subject. As the reviewer asked: "Was there a moment of epiphany, like Saul of Tarsus falling off his mule? How many possible disaster scenarios did he really anticipate, and how much has he realized only more recently, after observing and ruminating with hindsight?" Did the crisis authored by the Clinton administration of which he was a leading member just confirm his intuition or did it also teach him something new? The answer to this question would tell us something about his intellectual journey. That would allow us to pose a more contemporary question: Should not the present global crisis lead Professor Stiglitz to develop his thought further? My point is that this question is not just one that should interest Professor Stiglitz's biographer; it is of theoretical significance. Let me explain in terms that a lay person can understand, which will also allow me to pose my second question.

II. Why Call it Market Failure?

Professor Stiglit's theoretical work is on the economics of information. Traditional economics, both classical and neoclassical, has been dominated by two related assumptions. The first is what Adam Smith called 'the invisible hand,' the assumption that free competition leads to an efficient allocation of resources. The second is a related assumption in welfare economics, that issues of distribution should be viewed as completely separate from issues of efficiency. It is this methodological *"separation"*between growth and distribution which allows economists to push for reforms which increase efficiency, regardless of their impact on income distribution. It is the methodological basis of what we know as the "trickle down" school in economics. Professor Stiglitz's great contribution has been to challenge both these assumptions. As he has shown, asymmetric information is a pervasive feature of how real-world markets operate. The free market is an ideological myth. In the real world, imperfect information makes for imperfect markets.

For Stiglitz, this means that governments need to strongly and effectively regulate what goes on in markets. The point is to level the information field as much as possible so that markets may function with a modicum of efficiency and fairness.I have simplified the matter but I think it gives you an idea of the contribution for which he justly received the Nobel Prize.

In the three decades that preceded Stiglitz, economists had identified important market failures, but in limited areas, such as externalities like pollution, which require government intervention. But the case they had made was for limited government intervention in limited areas. Professor Stiglitz made a more general case. He showed that markets are always imperfect since they are always characterized by imperfect information, why government intervention has to be a constant presence in the market.

Here then is my *second* question: **Why call this "market failure"?** The term "market failure" suggests that markets normally function properly and that "market failure" is an exceptional occurrence. It is an appropriate term to describe the thought of pre-Stiglitz economists who focused on externalities like pollution to call for government intervention in select fields. But it hides the real significance of Professor Stiglitz's contribution which is to redirect our thinking away from failure as an exceptional occurrence to imperfection as the normal state of markets. Like its twin term "state failure," the term "market failure"focuses our attention on the exception rather than the norm. But we are not talking of an occasional lapse in how markets function; rather, we are talking of the regular state of markets, of how imperfect markets are when they function the way they are supposed to function. Information is always imperfect and so are markets. What is involved here is a methodological shift from the exception to the norm. This is a shift of paradigmatic significance. "Market failure" is an unfortunate term because it hides the fundamental character of this shift.

III. The Problem is Not Just Economic

Before discussing its limits, I will summarize Professor Stiglitz's response to the problem he calls "market failure." Professor Stiglitz attributes "market failure" to "lack of transparency." He has several recommendations on how to check market failure. The first is that government needs to bridge the gap between social returns and private returns, both to encourage socially necessary investment as in agriculture and to discourage socially undesirable investment as in real estate speculation. Second, the government may set up specialized development banks. In support, he cites the negative example of America's private banks and their "dismal performance" alongside the positive example of Brazil's development bank, a bank twice the size of the World Bank, and its "extraordinary success" in leading that country's economic transformation.

Finally, Professor Stiglitz cautions against liberalizing financial and capital markets as advised by the Washington Consensus. He reminds us that African countries that followed the Washington Consensus like so many faithful converts paid the price for not thinking on their own feet. To quote Professor Stiglitz: "Credit to small and medium sized enterprises went down. More broadly, credit to productive investments went down. … Not surprising, the result was that growth was lower in countries that liberalized." The countries that succeeded were those in East Asia; unlike African countries, they regulated financial markets in the interest of their development.

Professor Stiglitz says that the Washington Consensus is an ideology. He has a term for it: he calls it "free market fundamentalism."It was "ignored in Asia" but "has inflicted a high cost on developing countries, especially in Africa." He says the Crisis of 2008 provides a moment for reflection, on the key importance of the financial sector, and of how ideology—flawed ideas about markets—led to a global disaster." The lessons are two-fold: first, "more than better regulation is required"; second. "the government must take an active role in providing development finance."

I am not an economist, but I have been forced to learn its basics to defend myself in the academy and the world. Like you, I live in a world where policy discourse has been dominated – I should say colonized – by economists whose vision is limited to the economy. Professor Stiglitz derides this as "free market fundamentalism" and I agree with him. Like fundamentalist generals who think that the conduct, outcome and consequence of war is determined by what happens on the battlefield, the thought of fundamentalist economists not only revolves around the market but is also limited by it. Just as war is too important an activity to be left to generals, the material welfare of peoples is also too important to be left to economists alone.

I salute the work Professor Stiglitz has done to show the havoc caused by what he calls "free market fundamentalists." But I have a critique. I have already argued that his definition of the problem as that of "market failure" is inadequate. I will now argue that, In light of the challenge we face today, his response to the problem is also too limited.

To illustrate how deep and pervasive this crisis is, I would like to sketch some key developments starting with the Clinton years. Let us begin with the collapse of the Soviet Union. In the 1990s, the Clinton administration urged on Russia what it called a "shock therapy," a cocktail of recipes first perfected in African countries in the 1980s, and baptized as Structural Adjustment by the Washington Consensus. That policy practically destroyed essential consumer industries, from pharmaceuticals to poultry, and led to mass poverty in Russia. Fully backed by the Clinton administration, Yeltsin and his fellow conspirators were happy to implement this "shock therapy" as a way to acquire property at the expense of democracy. In the words of a moderate Russian paper, *Literary Gazette*, the "shock therapy" turned Russia into "a zone of catastrophe." We may note that none of the architects of this policy in the Clinton administration – neither Larry Summers, nor Jeffrey Sachs nor former President Clinton himself – has every publicly apologized for this.

My second example is more current. The Eurozone was created as a single currency for Europe but without constituting Europe as a democratic polity. The result was that monetary policy was formulated outside the framework of democracy. The states in Europe have done to their own people what the

Washington Consensus did to African peoples in the 80s. Unelected governments rule Europe; the EU ruling phalanx is not accountable to any one. By all technical standards, what is taking shape in Europe is dictatorship. Not only are essential mechanisms of democratic systems being eroded or discarded, democracy is rapidly losing credibility.For the third time in a century, Germany is looking to turn Europe into its backyard. Germany is now achieving with banks what it failed to achieve with tanks in World War I and World War II. It is even more interesting that it is Germany that should now propose a democratic solution to the crisis of the Eurozone, calling for a political unification of Europe.

Historically, capitalism – and the market – have been kept in check by democracy. Both the Russian and the European cases show us what happens when you do away with the democratic process in the interest of economic efficiency.

In both the Russian and the European cases – and one could multiply examples – the problem has not been the absence of state activism. If anything, states have reinforced the havoc wreaked by market forces on society. Society is the missing term in the state-market equation that has defined the debate on "market failure" among economists. The tendency of the market, like that of the state, is to devour society. The challenge is to defend society against these twin forces.

Here is my point: The antidote to the market was never the state but democracy. Not the state but a democratic political order has contained the worst fallout from capitalism over the last few centuries. The real custodian of a democratic order was never the state but society. The question we are facing today is not just that of market failure but of an all-round political failure: the financialization of capitalism is leading to the collapse of the democratic order. The problem was best defined by the Occupy Wall Street movement in the US: it is the 99% against the 1%.

Thus my *third* question: **does not this empirical acknowledgement need to be translated into a theoretical insight?** Does it not call for arevised theoretical apparatus: one beyond a focus on “market failure”; one that does not limit the frame to the market and the state; one that is more interdisciplinary and more focused on the intersection of the economic, the political, and the social, both to illuminate the depth of the crisis we are faced with today and to shift focus from the state and the market to society?

IV. Lessons for us in Uganda, in East Africa and in Africa

I have little doubt that the audience here wants us to go beyond questions of economic theory, beyond a discussion of the global crisis. This audience would like some discussion of the Ugandan crisis.**I will ask my fourth and last question on behalf of the audience: What are the lessons for Uganda, East Africa and Africa?**

My first observation is that the Ugandan crisis is not really exceptional if you look at the rest of the world. In his more public and less academic observations, Professor Stiglitz has remarked on the depths of the problem in “much of the world”. Take an example from 2007 when Professor Stiglitz wrote of globalization on *Beppe Grillo’s Blog* in2007: "For much of the world, globalization as it has been managed seems like a pact with the devil. A few people in the country become wealthier; GDP statistics, for what they are worth, look better, but ways of life and basic values are threatened. ... This is not how it has to be."

It would be a shame if this audience is to walk away from Professor Stiglitz’s lecture with a message that the problem is just one of “market failure” and the solution is a robust state that regulates markets and provides development finance. Is the lesson of the Structural Adjustment era simply that we need strong states to defend ourselves from the Washington Consensus? Or does the experience of the SAP era also raise a second question: What happens if developing countries are forced to push open their markets before they have stable, democratic institutions to protect their citizens? Should we be surprised that the result is something worse than crony capitalism, worse than private corruption, whereby those in the state use their positions to privatize social resources and stifle societal opposition?

Social activists in Uganda increasingly argue that the state and the market are not opposites; they have come together in a diabolical pact. Like in the US where the state feeds the greed of the banks, the state in Uganda has become the springboard of systemic corruption. The use of eminent domain clause to appropriate land – from tropical rain forests to primary and secondary schools – is done in the name of development. Even parliamentarians who discuss the oil issue complain, almost on a daily basis, that instead of leveling the information field, the state uses all its resources to keep information secret and muzzle public discussion on how public resources are used. The question is simple: what happens if it is the state, and not just market forces, that hoards information?

I want to broaden our focus to the East African community. The political class in Africa is weak. Often, its vision is clouded by a singleminded preoccupation with the question of it own political survival. The result is a singular lack of imagination, marked by a tendency to borrow 'solutions' from the West. The AU named itself after the EU. The East African Community adopted the European process hook, line and sinker: first a common market, then a common currency, before any political arrangement. Here is my question: Will the pursuit of this European recipe – introducing a common East African currency without first creating a common political framework for East Africa, without first solving the question of sovereignty, whether through a federation or a confederation – not invite a Europe-type crisis?

V. Conclusion

Let me conclude with two observations, one theoretical, the second political.

When I was a graduate student, my economics professor asked me to read a great postwar classic, Karl Polanyi's *The Great Transformation*. Polanyi was the first to point out that self-regulating markets are bound to lead to a social catastrophe. Polanyi began with the observation that the market is much older than capitalism. It has been around for thousands of years. Markets have coexisted with different kinds of economies and societies: capitalist, feudal, slave-owning, communal, all of them. The distinguishing feature of all previous eras has been that societies have always regulated markets, set limit on their operation, and thus set limits on both private accumulation and widespreadimpoverishment. Only with capitalism has the market wrenched itself free of society. A consequence of this development has been gross enrichment of a few alongside mass poverty. A corollary of this process, we may say, is that regulation is now seen as the task of the state, and not of society.

That solution is rapidly turning into a problem. Not only has the market wrenched itself free from society, so is the state trying to do the same. Not only do market forces threaten to colonize society, the state too threatens to devour society. Free markets are not a solution for poverty; they are one cause of modern poverty. State sovereignty is not a guarantor of freedom; it threatens to undermine social freedom. The challenge is not how the state can regulate the market, but how society can regulate both the state and the market.

I thank you.

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