Unequal Societies: The Global Economic and Geopolitical Situation

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There has been growing inequality within most countries of the world

• Is this growth a result of forces of nature—the basic laws of economics?
  • Or is it result of “the laws of man”—what we ourselves are doing?

• Is it the result of the basic workings of the market?
  • An inevitable, if unpleasant, side effect?

• Or is it the result of how we have structured markets, of how we have changed the rules of the game in our market economy, in some cases undermining the market economy
  • And of the way we have structured globalization—the evolving geo-political situation
Explaining the growing inequality

• Is it because we have not done enough to counter the forces of nature?
• Is it because, rather than trying to stand against the tide, we have reinforced the effects of nature, of the laws of economics?
• And is it because the way our global governance has worked has worked against ordinary citizens around the world?
The central theses of this lecture

• The growing inequality is largely the result of the “laws of man”
• It is a result of how we have structured the market economy—of how we have *restructured* it in the last third of a century
• Inequality has been a *choice*
  • In our democracy, a choice made through our political system
  • But our political system has often exhibited a “democratic deficit”
• What we have done has resulted not only in more inequality, but in lower growth, more instability, and overall poorer economic performance
  • Including extensive environmental destruction
I. A brief description of what has been happening

- More money at the top
- More people in poverty
- The evisceration of the middle

- US provides worst example
- But countries following US economic model are moving in the same direction
Top 1% vs Bottom 90% Average Income

Income share of the richest 1%

CEO pay provides “worst” example

• In US, risen to more than 300 times that of the average worker

• Bankers walked off with major bonuses, even as they brought their firms—and the global economy—to the brink of ruin
  • Undermining “standard” theory that compensation in a market economy is based on social contributions (“marginal productivity”)
Stagnation: U.S. median household income (constant 2015 US$)

Source: U.S. Census Bureau
Note: Data is adjusted for the methodological change of 2013.
Decline in median income of full-time male workers (constant 2015 US$)

Source: U.S. Census Bureau
Note: Data is adjusted for the methodological change of 2013.
U.S. minimum wage, 1938-2016

Minimum wage in 2016 Dollars

Multiple aspects of inequality

• Health—and access to health care
  • Worse in countries without good public provision
  • Death rates rising for middle-aged white Americans (Case Deaton 2015 Study)

• Voice
  • Attempts in US at disenfranchisement

• Access to justice
  • Mass incarceration
  • Mass evictions

• Wealth
  • 62 individuals owned as much wealth as the bottom half
  • Top 1% owned more than the bottom 99%
The Walton Family and The Koch Brothers’ net worth = $230 billion

That’s the net worth of 150 million Americans or 44% of the country.
Most invidious aspect: inequality in opportunity

- America among the countries with the least opportunity—in spite of the notion of the country being the land of opportunity (American dream)
  - Life prospects of a young American more dependent on the income and education of his parents than in other advanced countries
- Not a surprise: systematic relationship between inequality in incomes (outcomes) and inequality of opportunity
  - Other countries with high levels of inequality also have low levels of equality of opportunity
Income inequality and earnings mobility

Income inequality and intergenerational earnings mobility, mid-2000s

Source: “United States, Tackling High Inequalities Creating Opportunities for All”, June 2014, OECD.
Global inequality

- Almost all advanced countries have seen increased inequality in last 30 years
  - But some have seen much greater increase than others
  - Cannot explain these differences by “economic laws”
- The trend around the world is somewhat mixed, but remains a concern almost everywhere
  - Some countries (especially in Latin America) have even managed to reduce inequality
Global inequality: income growth by percentile, 1988-2008

Understanding global discontent

- Very rich—those at far right of graph—have seen their incomes grow at a high rate

- Developing Asian middle class (especially China) has also grown at a fast rate. This is represented by those in middle-left of the graph.

- The incomes of the world’s very poor—those on the far left of the chart—have not kept pace.

- Advanced country middle class incomes—those around the 80th percentile—have stagnated completely
II. Major changes in understandings of inequality

1. Trickle down economics doesn’t work

2. Large differences in outcomes/opportunities among advanced countries
   - Suggesting that it is policies, not inexorable economic forces that are at play

3. Economies with less inequality and less inequality of opportunity perform better
   - Many reasons for this
     - Lack of opportunity means that we are wasting most valuable resource
     - Erosion of trust—which is important for the functioning of the economy
   - In last few years, this view has become “mainstream”
Explaining change

• Key question
  • Was period after WWII, the “golden age of capitalism,” an aberration, the result of the social cohesion brought on by the war?
    • With the economy now returning to the natural state of capitalism?
  • Or is the increase in inequality after 1980 a result of a change in policies?
• Beginning about a third of a century ago, we began a process of rewriting the rules
  • Lowering taxes and deregulation was supposed to increase growth and make everyone better off
  • In fact, only the very top was better off—incomes of the rest stagnated, performance of the economy as a whole slowed
• Resulting in basic necessities of a middle class society being increasingly out of reach of large proportion of population
  • Retirement security, education of one’s children, ability to own a home
Financialization and inequality

• Financialization of the economy contributed significantly to inequality (directly and indirectly) and to slower growth
  • Led to short-termism—CEO’s focused on short term returns (and their profits), not long term growth and societal benefits (including workers)
  • Led to financial and economic instability
    • Instability led to lower growth
    • And brunt of costs borne by ordinary citizens
  • Inequality itself led to more instability and poorer economic performance
  • Economic inequality led to political inequality
  • Leading to even worse “rules of the game”—favoring the 1%.
Example: Mismanagement of Globalization

- Was supposed to lead to faster growth from which everyone would benefit
- Financial integration was supposed to lead to faster growth and more stability
- Obvious—neither has happened
- Agenda was in fact based on interests and ideology—globalization was not well managed
- Economic theory *predicted* that there would be large distributive consequences
- Economic theory *predicted* that if not well-managed, it could lead to more instability
- Economic theory *predicted* that if not well-managed, it could lead to slower growth and even more economic concentration and less competition

All of this has come to pass. Neoliberal theory was based on special and unrealistic model of market economy.
Severe Economic and Political Consequences

- Citizens know that the “establishment” has either lied to them, or been totally incompetent
- They feel (rightly) that the economic system is rigged
- They saw how the bankers were saved in the economic crisis—but not the rest: they have lost trust in their government and the fairness of our economic and political system
Even worse moral and societal consequences

- Single minded focus on profits and financial incentives has changed who we are
  - Preferences and beliefs are endogenous
  - Society has become more selfish
  - Moral turpitude pervasive—from the bankers to the auto industry
There are alternatives

- Alternative ways of organizing our economy and society
- Institutional innovations that deliver better for ordinary citizens
- And even lead to faster overall growth
- Partly because of a growth in trust and loyalty—important for economic performance
  - Lower turnover, greater effort
  - More shared prosperity
Disconnect between productivity and a typical worker’s compensation, 1948–2014

Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. “Net productivity” is the growth of output of goods and services minus depreciation per hour worked.

Source: EPI analysis of data from the BEA and BLS (see technical appendix for more detailed information)
Alternatives to for-profit model based on selfishness

- The best performing institutions in the US are its not-for-profit universities
  - Among the worst performing are its for-profit universities

- Micro-credit schemes in Bangladesh based on non-profit cooperative model have brought tens of millions out of poverty
  - Micro-credit scheme in India based on for-profit model re-invented old-style money lender, and became India’s sub-prime lender

- Profit-sharing has become central in 2016 US presidential campaign
  - Based on wealth of evidence that firms with profit sharing actually perform better, especially for workers and especially over the business cycle
Our society as a whole helps create risk

• And individuals on their own can’t manage many of these risks well
• Need better systems of societal risk sharing—social protection
• But there is a broader need for collective action to ensure middle-class living standards, and that our economy works for all
  • Regulations to prevent abuses
  • The Entrepreneurial State to promote innovation
Competition

• Neoliberal theories simply assumed there was competition
  • Competition Policy needed to promote and ensure competition
• Economy increasing marked by market power
  • But more than anti-trust policy
    • Need public option in retirement (opting into *additional* social security benefits), health care (“the public option,” expanding Medicare, in countries like US without public health system), publicly provided income contingent student loans, and publicly provided income contingent mortgages
      • US mortgage system was exploitive—and now is totally broken
We have choices

- There are alternatives to the current system
  - Even if the advocates of the system suggest there are not
  - And seem to suggest that, at most, we need just minor tweaks on the system

- The problems are deep and fundamental

- Some of these alternatives have proven their value over decades

- We should learn from these experiences
  - We can reshape our economy
  - We can reshape globalization

- And we can construct a world where the economy performs better for all, based on solidarity and social justice