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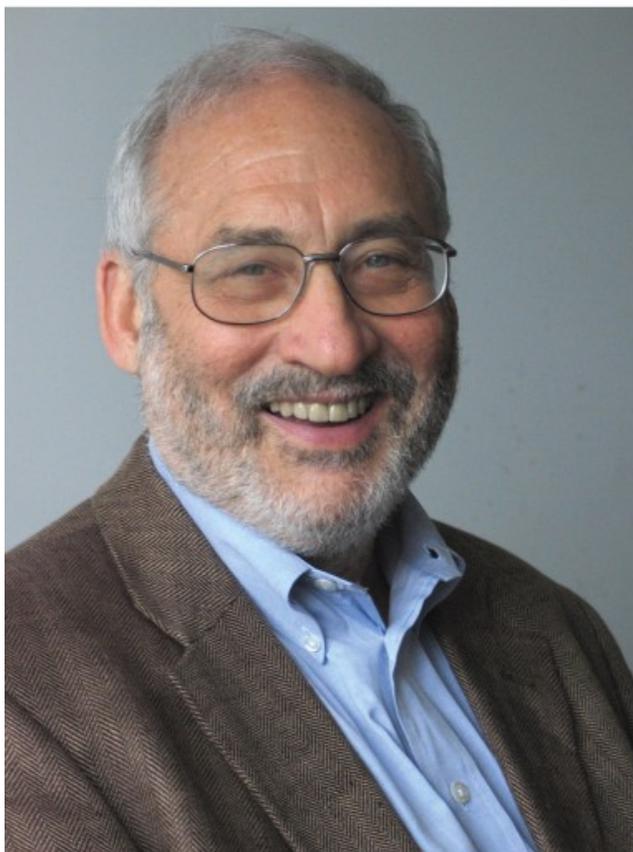
POLÍTICA > ECONOMÍA

**JOSEPH STIGLITZ / ECONOMIST, NOBEL
LAUREATE**

“TPP and TTIP are an attempt by corporations to change the rules of the game against the rest of society”

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Joseph Stiglitz.

DAN DEITCH (CORTESÍA DE W. W. NORTON & COMPANY, INC.)

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Joseph Stiglitz is no radical. His temperament, colored by a cautious optimism, and his impressive résumé make him a man of order, a reformist at most. And yet, the Nobel laureate, who served as a Chief Economist at the World Bank in the late 1990s after briefly heading Bill Clinton Council of Economic Advisors, has become a vigorous critic of the establishment. For someone of his pedigree to come out for the ‘NO’ in the Greek bailout referendum or speak out against Free Trade Agreements, worker exploitation, the ‘vulture funds’ preying on indebted nations and what he calls “the moral

depravity” of the financial sector, would suggest a renewed progressive impetus, perhaps even a revelation. And yet, Stiglitz’s positions haven’t moved much –the world around him has. The relentless march rightward of economic orthodoxy, along with the rise of inequality, leave the Columbia University Professor in direct opposition to most of his presumed allies –or even his colleagues. He doesn’t seem to care. He met CTXT in his office at Columbia to discuss his latest book *The Great Divide*, which deals with the causes, consequences and perils of the growing gap between rich and poor –and why things don’t have to be this way.

You’ve made inequality a focus of your work. Your last three books and even your PhD thesis dealt with subject. Why should people care about it?

Well, there are, fundamentally, a lot of moral reasons. Research over the last ten years actually has begun to show how inequality is so bad for society. It’s even bad for the people at the top, who become entitled as a result. As an economist, I focus on how it’s bad for the economic performance.

What do you mean when you say the economy as a whole pays a price for inequality?

It grows more slowly and less sustainably. Even the 1% ought to, for their own interests, be

concerned about inequality. The period after World War II was our period of fastest economic growth. It was the period of our most shared economic growth, and the growing consensus was that those two observations are related. It was precisely because it was shared that it was a period of faster economic growth.

But that seems to go against the very principle of trickle-down economics.

Exactly. Trickle-down economics clearly does not work. No one in their right mind now defends it. The only question is, how bad is inequality for the economy? Obviously it depends on the magnitude, how it's generated. This includes inequality generated by monopoly power, or inequality generated when those at the bottom don't have access to education, where you're not using your human resources as fully as you could. Those kinds of inequalities, which characterize America and, increasingly, Europe, are enervating to the economy.

You write in the Introduction to *The Great Divide* that you sensed, even as a kid, that America wasn't the land of opportunities that it promised to be. You also point out that the American Dream has become largely a myth, and argue that the reasons for inequality are political. What sorts of policies have driven the rise and expansion of inequality during your lifetime?

First, the country was never as advertised. I felt that growing up very strongly: it was never a land of equality, of opportunity, for African-Americans. Slavery had ended in the Civil War, but we still parry oppression and lack of opportunity, which continues today, brought out so forcefully by the Black Lives Matter movement. Part of what's made things worse is that we've become more economically segregated. In other words, white rich people live with rich people, poor people with poor people. We have an education system that is very locally based, so if you live in a poor community, you get poor schools, and what I call the intergenerational transmission of advantage and disadvantage.

Which is the opposite of the American Dream.

It's the opposite of the American Dream. Some countries in Europe after World War II put a great deal of effort into trying to break down class barriers. I think the problem is we assumed we didn't have those barriers, and so we let them grow.

Going back to education, you write about how inequality is perpetuated from kindergarten to college. Can you explain how that reproduction process takes place?

It's easiest to understand thinking about a place like Columbia, one of the elite schools in our

country. Like most other top schools, we have needs-blind admissions. Students get admitted regardless of their economic background, and we have a large enough endowment that we make up the difference between the cost, which is \$70,000, and what the family can afford. Very generous, on paper. But if you look at these elite schools where money should not be a barrier, the fraction of people from the bottom half of the population is about 8-9%. You ask, how is it? These schools are a bargain. If you're the bottom half, they're willing to give you 70,000 a year. Why aren't people flocking to it? The answer is, they haven't gone to the high schools that prepare them, and they haven't gone to the high schools because they didn't go to the grade schools. They didn't go to the grade schools because they didn't go to the kindergartens. They didn't go to the kindergartens because they didn't have a pre-school. That's all related to this geographic segregation, and the irony, in a way, of a so-called meritocracy is that meritocracy is based on people getting the skills necessary to succeed in a meritocracy, and wealthy parents can give their children a leg up.

You also talk about rent seeking and financialization as drivers to inequality. Why do you put an emphasis on those two?

The strand of economic theory that is based on the competitive market –explaining everything through supply and demand factors- is not a good

frame of reference. There's a lot of exploitation of a variety of forms —racial, gender, of monopoly power, taking advantage of workers, of corporate governance problems. This stresses all of the failures in the market. One statistic that illustrates that is the productivity of labor has gone up pretty continuously, but until 1973 wages and productivity moved in tandem. This is what you would expect. But beginning in the mid-'70s, productivity continues almost at the same pace, but wages have stagnated. Why did wages not move in tandem with productivity?

What's your answer?

Monopoly power raises prices and therefore lowers real wages, and removing collective bargaining depresses wages, which squeezes workers. That's how you weaken unions. You run globalization to make workers compete with workers in China. There are many ways in which the rules of the game have changed to disadvantage workers, but this rent seeking is one of the components.

Is financialization another one?

The financial sector has grown from about 2.5% to 8% of GDP, with no evidence that it's improved economic performance. These guys are, you might say, the experts in rent seeking, and so they've perfected the ability to take money from other people without contributing to societal performance. They create wealth at the top, but

they also create misery at the bottom.

How do they do that?

Through predatory lending, targeting minorities, abusive credit card practices, usury... They change the laws to advantage themselves. In the United States, if you take out a student loan, you can't discharge that debt in bankruptcy almost no matter what happens. Who would ever write a legal structure like that? The banks would. That is oppressing the bottom, and the money is going right from the bottom to the top. Also, they committed fraud. I can't stop the litany of things that they've done. They played a role in changing the whole economic framework and encouraging short-termism, and non-investment in people.

You looked at the way the tax system works against reducing inequality. What do you propose to do about tax evasion?

Tax havens are not an act of nature. They're created by Congress, in effect. We've created a legal framework that allows the rich and corporations, within the law, not to pay taxes. This could change. You could say anybody keeping their money in any jurisdiction that smells bad will be taxed in a disadvantaged way. For instance, you can say every American has to report their money in the Cayman Islands. Since they don't subscribe to the tenets of openness, you will pay a surtax of 80%. Overnight, you will close tax havens down.

Some argue that if a country like Spain were to raise taxes, it would create capital flight because there is always going to be a place where the rich can take their wealth. You're saying that's only because we allow it.

Exactly. If Europe as a whole got together, they could solve this easily. Most countries in Europe have a residency-based tax system, and if you're a resident in the Cayman Islands, you don't have to pay taxes in Spain. You could change that and say if you own a business in Spain you pay taxes there. If you don't want to do business in Spain, you can leave the country.

You've made similar arguments in regards to corporations. When Apple or Google pay taxes in Ireland, you argue they should be taxed on their activity as opposed to their physical residence.

I would say treat them as a unitary organization. You pay taxes in the United States on your global income, and if you can show that Ireland is where you legitimately generated that income ... you have a thousand people there, and that's 5% of your labor force, okay, 5% of your profits are generated, you pay 5% there, but otherwise we're going to charge you. It's totally understandable why, if you have a lot of money and you can lobby, you would try to get Congress to pass laws and create a framework that says you could avoid taxes. What I'm saying is it's easy to get rid of that.

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If you want to do business in Europe or America, you pay taxes.

Because of your position as Chief Economist of the World Bank years ago, you've been in a good position to judge the effects of globalization. Is it a positive-sum game like?

It all depends on how we manage it. Some of the current trade agreements, TTIP, TPP, are negative-sum. They're an attempt by corporations to change the rules of the game to advantage themselves at the expense of rest of society, even if the net benefit to the global economy is negative. One provision of this is the drug benefit. They've been using trade agreements to push Big Pharma at the expense of generics. We all lose, except for the drug companies. We pay higher prices. They're not doing more research, really, and the loss to the rest of us is greater than the gains to Big Pharma.

You say that income inequality is connected to unequal opportunity -What's the evidence? I ask this because some argue that as long as there's equal opportunity, it's okay to have inequality.

When you look across countries, those with a high level of inequality have a low level of equality of opportunity, as measured in the standard ways. That's an empirical finding.

Equality of opportunity, meaning...?

Mobility. The standard measure is the correlation between the income and education of the parent and that of the child. There are other ways of doing it, like what is the fraction of those in the bottom quartile that make it to the top quartile? There's a systematic pattern.

Why is that?

Parents who are wealthy give their children more educational opportunities. The societies that reduce the inequality of opportunity have made greater efforts at giving public education a leveled playing field.

You've mentioned Black Lives Matter.

There's a lot of talk about the injustices in the criminal justice system in the US. You argue those, too, are connected to inequality ...

In many ways. If you're rich, you have one system of justice. If you're poor, you have another system of justice in our country. You have one ounce of marijuana –you got five years in prison. You steal money through dishonesty in the banking system, which is theft, massive fraud –no one was convicted. We have a legal system that protects the rich but throws into jail poor people. The question is, how do we tolerate it and what can we do about it?

You wrote that the recovery was made for the 1% and by the 1%. What might an

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alternative recovery have looked like if you had been the one devising it?

At the time, I said rather than giving \$700 billion to the banks, let's give money to homeowners. Let's pass a bankruptcy law that allows poor homeowners who've been preyed upon by the banks to restructure their debts and keep their home. We threw money at the banks, and they didn't lend it, so we didn't have demand. If you give the money to poor people, they spend it. We would get demand.

You say the crisis itself was created by inequality. Why is that?

Because the growth of inequality meant money was going to the top. The people at the top don't spend as much money as the people at the bottom. Demand went down. But rather than responding to the root cause and saying let's do something about inequality, Bernanke and Greenspan said 'we have a weak economy, so we'll solve the problem by creating an unsustainable housing bubble.'

When you say the bubble was a response to the inequality, do you see any signs of anything similar happening now?

Yes. We should have attacked the inequality directly, and at worst, use fiscal policy to stimulate the economy. Construct roads, schools. Instead, we relied on monetary policy to

stimulate the economy. Today we're not doing very much about inequality. We're not doing fiscal policy. We're doing monetary policy. What does monetary policy do? Low interest rates, which creates bubbles. Now, good monetary policy would say, I'm going to create liquidity, but I'm going to make sure that money goes to create new, productive investment. You could use it to create jobs, to create employment, to create real investment, retrofit the global economy...

Through the state. The state would have to get involved.

Or, for instance, the Fed could say, we're only going to lend money to banks that lend to small and medium-sized enterprises that are creating jobs. We're not going to lend to banks that are lending to foreign countries to create bubbles, or to hedge funds.

Are there are no strings attached now?

No strings attached, so money goes where they're willing to pay the highest, and that's where the bubbles are. But it's a 'better' bubble. The housing bubble was the worst kind of bubble – everybody is involved, so when it breaks, everybody gets hurt. This bubble is a new tech bubble, so a lot of rich people are going to get hurt.

But not so much society as a whole?

The society as a whole will get hurt, but not as badly as in our housing bubble.

You're saying inequality led to the crisis and there's more inequality after the crisis.

Didn't we learn from Piketty that's a natural tendency of capitalism, save a big shock, like the period after a war?

Yeah, and that's where I fundamentally disagree with him. It's all about the creation of the laws. We don't have to discriminate against African-Americans. We don't have to have laws that say that bankers that commit fraud get a free ride, or countenance monopoly power and abuses of the kind where a CEO can steal all the money from the corporation. I would say that's ersatz capitalism, fake capitalism. Now where I think Piketty and I would agree is there's a tendency in political capitalism for a world in which there's so much inequality, to try to create laws that...

Economic inequality leads to ...

...Political inequality, that leads to laws that give rise to all these abuses. But that's a violation of a well-functioning market economy. It's the perversion of capitalism, caused by this political inequality.

When you see a candidate like Bernie Sanders emphasize many of the things that you've advocated, from campaign finance to public education, what does that make you

think?

Yes, and his policy towards the banks and so on... I feel a little hopeful. The magnitude of the support he's been getting from young people is absolutely phenomenal. They believe that there's an alternative that's viable, and that money matters, but maybe... people power matter more. It's going to be a hard battle, and it may be that we haven't yet reached the outrage that we need to get. The current situation is untenable, but the danger is the reaction Trump is offering on the other side. But it's clear that for large swaths of Americans, the current system is not working.

You mention outrage. Do you think the only way to break that cycle of political inequality breeding economic inequality and vice versa is through mobilization from below?

Yes, outrage. In the 2012 election you got a disengagement. A lot of people were so angry with the way Bush and Obama had handled the crisis, they disengaged from politics. 2016, I think the anger has grown even more, and the right figure came forward.

The right figure?

I mean Bernie Sanders, to capture that. It may not be enough.

I remember hearing you say, back in 2013 or 14, that it should be Germany that gets

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expelled from the Euro, rather than the countries in the South. What made you think that, and has your position changed since?

This is a simple economic argument. The Euro, as currently constituted, with Germany refusing to support the reforms that are necessary anytime soon, including a banking union, is inviable. What is the best way of breaking it up? If Germany leaves, then the value of the Euro would go down, and that would restore competitiveness of the rest of Europe. There's an imbalance because Germany is so competitive. And the debts that they owe ... Well, if Greece or Italy leaves, the Euro goes up in value, and the debts that they owe in Euros become very hard to repay. So Germany leaving is clearly the smoothest way out.

But absent that, which doesn't seem likely, Would the Euro break up?

I don't think it has to. I don't think it's the best answer, but it's a better answer than the current muddling through.

You said you would have voted no in the Greek referendum and have called Greece the Eurozone's “sacrificial lamb.” What did the events that followed, with the government backtracking from its anti-austerity positions, make you think?

The IMF and Germany are still squabbling. The

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AUTOR

Álvaro Guzmán Bastida

Nacido en Pamplona en plenos Sanfermines, ha vivido en Barcelona, Londres, Misuri, Carolina del Norte, Macondo, Buenos Aires y, ahora, Nueva York.

Dicen que estudió dos

IMF correctly says there has to be a debt restructuring. Germany says no, so we're back at square one... Nothing has been resolved, in Greece or Spain or Europe as a whole, and the program is committed to creating, maintaining and extending the depression in Greece. I can't believe that Europeans would be so cruel to other Europeans.

... que cubre los másteres, de Periodismo y Política, en Columbia, que trabajó en Al Jazeera, y que tiene los pies planos. Escribe sobre política, economía, cultura y movimientos sociales, pero en realidad, solo le importa el resultado de Osasuna el domingo.

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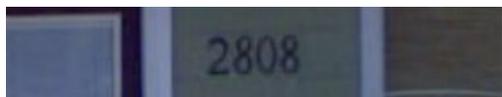
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