Inequality in U.S. should be addressed

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The focus of the U.S. presidential campaign is on the economy, especially on how to tackle widening inequality in the United States. How does Joseph Stiglitz, a Nobel laureate and professor at Columbia University, look at the situation? The Yomiuri Shim bun recently sat down with Stiglitz, who was visiting Tokyo, and asked his views.

The Yomiuri Shim bun: To what extent is the rapidly rising inequality in the United States playing a role in the U.S. presidential election?
Joseph Stiglitz: A very, very important role. And it’s not only the rising inequality; it is the fact that particular groups in the population are having a very difficult time. People who don’t have a university degree are having — and men are having a more difficult time than women; women’s incomes are going up faster than men’s. Of course there was a lot of inequality, so some of this is rectifying inequality, but the fact is that it’s been very hard for groups in American society, and that’s showing up in the anger that you see in Trump supporters. There is a destructive kind of anger.

On the Democratic side it’s more reasonable; people are trying to figure out the solution.

There are three things causing the anger: the high level of inequality and the fact that they think it’s unfair. If someone is richer because they worked harder, that’s one thing. But if they stole money from me or they got their money unfairly, and the view is the banks made their money at the expense of everybody else in our society. They did very bad things, like fraud, and nobody was held accountable. So the inequality, the unfairness of it, and finally the lack of trust because people promised that they would change things in ways that would be fair hasn’t happened. So there is a lack of trust in some of our basic institutions.

Q: In your book, you argue that inequality is a consequence of the policies and rules of the past 35 years since the beginning of the Reagan administration. What are the specific rules and policies?
A: What I try to argue here is, it was many, many, many, many. For instance, the weakness of unions, the increase in the liberalization of financial markets that elevated the international markets, it’s the change in the rules of the corporation, corporate governance that allowed the CEOs more power. It was tax laws that encouraged stock options and short-termism so it was the failure to enforce antitrust laws. So it was many things that helped elevate the people at the top and weaken the people at the bottom and then weaken the middle as well.

One of the aspects of this is that the basic perquisites of the middle class society became

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Invest in people, in technology for the long term, and this resulted in the weakness of the American economy.

Q: How could we change this short-termism?
A: I think you have to go back to the rules that gave rise to it. I talk about that, that the tax law that made it better to pay people in stock options needs to be eliminated. So that’s the tax law. Financial transaction laws (regulation) is another important way, because it discourages short-term speculation. CORPORATE governance, we need, so that shareholders can vote on the pay, disclosure so that shareholders know the value of the stock options; loyalty shares so that people who own the company for a longer term have more say in what the company does — so the people who bought it in the last six hours have no vote, but the people who’s held the shares for four, five years get more votes.

Q: Could you elaborate on what you mean by saying that economic inequality weakens the economy itself?
A: This is a view now that most economists accept. The International Monetary Fund has pointed out that inequality is bad for economic performance; inequality is bad. And there are many reasons for that.

For instance, inequality is related to inequality of opportunity. Inequality of opportunity means that a young person, if he’s born in a poor family, doesn’t live up to his potential. Inequality affects the political process, so that you see divided societies you don’t see as much support for public investment in technology or public investment in infrastructure or education.

Inequality is also bad for the macro economy when there’s insufficient demand because people at the top don’t spend as much as those at the bottom. The people at the top, at the very top, earn about 5%. The people at the bottom, 80% of people, spend 100% of their income. And if you’re saying, it may be good in the long run, but in the short run it means there’s a lack of demand, and a lack of demand in those policies. For instance, the weak dates of unions, the increase in the liberalization of financial markets that elevated the international markets, it’s the change in the rules of the corporation, corporate governance.

Q: Thomas Piketty’s book drew the world’s attention to the problem of inequality. How is your analysis of the causes of the economic inequality different from Piketty’s?
A: What Piketty has shown is documented with much more widespread phenomena, whereas I put a major reason for the growth of inequality is the way we’ve rewritten the rules. So that’s what my earlier book "The Price of Inequality" emphasizes.

He emphasizes that it has to do with the rich having a lot and compounding. So, if they save and compound at the rate of interest and the rate of interest growth is higher than the rate of growth, then their wealth grows faster than the economy.

In some of my other work what I’ve emphasized is that there’s not explain what is going on in the United States and many other countries, because actually the savings out of national income is not so high, and that process would actually lead to more equality.

Q: So the point is rewriting policies.
A: Rewriting the policies and rules are most important.

Q: The United Nations Sustainable Development Goals include reducing inequality within and among countries.

As I think it’s morally important, and the same issues that we talked about within a country apply across countries as well; it creates tensions, it creates migration when it goes too big and then migration is a problem. Bad trade agreements create more inequality.

If we had a true development model, that would have helped, but the U.S. refused to get rid of its cut in agricultural subsidies. That’s hurts poor countries because they depend on agriculture; it depresses the price of cotton, makes poor countries even poorer. And what we should be doing is helping them with foreign assistance. Climate change is doing a lot of harm to many poor countries, and we should be helping them adapt and mitigate.