The Price of Inequality

JOSEPH STIGLITZ was awarded the Nobel Prize for economics in 2001 and is a member of the Berggruen Institute’s 21st Century Council. He spoke with NPQ editor Nathan Gardels about his new book, The Price of Inequality.

NPQ | What is the central thesis of your book, The Price of Inequality?

JOSEPH STIGLITZ | My argument in the context of the current debate is that no large economy has ever recovered from recession through austerity. But more than that, the sharp rise in inequality—especially in the US, which has the greatest inequality gap in the advanced countries—is holding us back. The lack of aggregate demand that has resulted from this inequality is a key factor hindering a return to growth.

Simply, those at the top where wealth has concentrated spend much less of their income than those at the bottom or in the middle. So, demand drops. If we want to restore growth, and therefore full employment and greater tax revenues, we need to address the underlying problem of inequality.

NPQ | And the cause of that inequality is what? Trade? Technological innovation? Tax policy?

STIGLITZ | Certainly the US faces the same challenges of globalization and technological job displacement as other advanced economies. But much of the US problem is that it has rising inequality because of policy choices that allow, and even encourage and incent, “rent-seeking” economic behavior at the top.

Rent-seeking distorts the efficient operation of markets. When financial gains from speculation are taxed at a lower rate than innovation, resources that would support productivity-boosting activities are diverted into, well, legalized gambling. Predatory lending policies and abusive credit card practices fit in this same rent-seeking category.

There are plenty of other examples: Executive compensation packages that come at the expense of the stakeholders and employees. Drug companies have successfully lobbied to stop the federal government—the largest purchaser of drugs—from negotiating lower drug prices. Bankruptcy laws in the US are given a higher priority...
in a workout than student loans, which can’t be discharged even under bankruptcy!

**NPQ |** What policy choices, then, can start to reverse growing inequality?

**STIGLITZ |** You can start with the tax code. Since so much of the rising income at the top comes from rent-seeking, more progressive taxation—particularly on capital gains—is necessary. Better-enforced antitrust and bankruptcy laws are policy choices that will make a difference. Limiting the power of CEOs to set their own pay is another obvious corrective.

**NPQ |** A recent book by Daron Acemoglu and James Robinson, *Why Nations Fail*, argues that the US is losing its famous inclusiveness and social mobility. “The problem is that economic inequality often comes bundled with political inequality,” they have written. “Those with great wealth and easy access to politicians and policymakers will try to increase their power at the expense of society. That sort of hijacking of politics is a surefire way of undermining inclusive political institutions, and it is already under way in the US.”

In short, beyond a certain threshold, inequality threatens a governing system that works for all.

**STIGLITZ |** I agree completely. Their thinking and mine is very much along the same lines.

Economic inequality begets political inequality and vice versa. Then the very vision that makes America special—upward mobility and opportunity for all—is undermined. One person, one vote becomes one dollar, one vote. That is not democracy. That is political decay.

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