The Atlantic

A Conversation With Joseph Stiglitz

The Nobel-winning economist discusses the Fed, the election, and the role of economists in fixing inequality.

Petros Giannakouris / AP

GILLIAN B. WHITE

APR 28, 2016 | BUSINESS

In the ongoing conversation about the growing divide between the rich and poor, there are few voices as prominent as the Columbia professor Joseph Stiglitz, a Nobel-winning economist and a former chairman of the Council of Economic Advisors.

In 2015 alone, Stiglitz wrote two books on the topic, *The Great Divide* and

Rewriting the Rules of the American Economy, based on years of research and expertise about the intersection of economic theory, markets, and policy. Each book highlights a series of problems and challenges that have led to the current state of economic inequality: a faulty tax code that rewards the rich and hampers the poor, an increase in behavior that boosts the economic gains of only a few while extracting more capital from the majority, and a misplaced focus on altering the economy in a way that benefits shareholders, executives, and investors, but not the average worker.

I spoke with Stiglitz about the current conversation about economic inequality, and what his role as an economist is in bridging the gap. The conversation below has been lightly edited for length and clarity.

Gillian B. White: When you look at the data on the economy, it seems like things are getting better. But one of the things that we constantly hear is that those improvements are not being felt in the day-to-day lives of the average American. Can you talk to me about that phenomenon and how it plays into growing inequality?

Joseph Stiglitz: The observation you have is what most people are experiencing. GDP is just the sum total of the output of the economy, it doesn't say how much of that is going into whose pocket. In the first three years of the recovery, 91 percent of all gains went to the top 1 percent. So the bottom 99 percent saw nothing. Many were actually becoming worse off: Their balance sheet had been destroyed, their major asset has been their home and the value of their home had gone down anywhere from 20 to 50 percent. Then came QE, and it created a stock-market but the average American has very little in the stock market. Overall ownership of stocks, is much more concentrated than the concentration of wealth itself, so QE was basically a gift to the 1 percent.

The people at the bottom are not doing very well, and wealth inequality, in that sense, has gotten worse. There are so many of these dimensions where the statistics that the Federal Reserve and the administration don't connect with the lives of ordinary Americans.

White: Do you think any of the groundwork has been laid to reduce that inequality going forward?

Stiglitz: We're in a little bit of better place, but not a lot better. It's obviously better to have 5 percent unemployment than 10 percent unemployment. And there's been the beginning of a housing recovery that has helped restore some of the wealth of ordinary Americans. But the damage that has been done is very deep and has persistent effects. The labor force participation rate of people in their 40s, 50s, is still lower than it's been in decades. People who lost their jobs in 2008, didn't get jobs in 2009, ‘10, ‘11, maybe aren't likely to get a job ever. If they do, it's not going to be anywhere near as good as their old job. There are many people for whom they lost their job at 50 or 55 and are unlikely to ever work again. The scar is permanent.

Another aspect of what I would say is the imperfect recovery, is that the marginalized groups remain marginalized. And while they've benefitted, the levels of unemployment are still very very high.

White: You were a vocal Janet Yellen supporter for Fed chair, do you think that the rate hike was a good idea and happened at the right time? Is the Fed moving monetary policy in a direction that helps the average American right now?

Stiglitz: I think they were right. They originally said, “When we hit 6 percent that's full employment.” Now they know that 4.9 isn't full employment, there's weak labor market. They should have focused more on improving the channel of credit to make sure that money was going to small and medium-sized enterprises They should have said to the bank—like some other countries have done—if you want access to the Fed window you have to be lending to SMEs. You have to be making sure the money isn't going to land speculation, real-estate speculation, not going abroad, not going to hedge funds, and so forth. Whether Janet could have done this on her own, I don't know, but she was following the standard macroeconomics view that asks how deep is the downturn and then using the one set of instruments they have, which is lowering or raising interest rates. The interest rate is not the right issue, the real issue is making sure credit is available to expand the economy. Just using the interest rate is not going to have a first-order effect on the economy as a whole. You're encouraging people not to focus on the really critical thing.

White: So are you not at all concerned about negative interest rates?

Stiglitz: Well that's a continuation of this single-minded focus. Lowering the interest from 5 percent to 0 didn't bring a robust recovery. Lowering it from 0 to minus 1/2 percent isn't going to do it either. And as you start getting to these very low interest rates, you introduce some distortions into the economy. There's some evidence from some European countries that it actually led to less lending activity. They're just focusing on this one variable as if it was a magical number, and I think it would be great if every American small business could go out and borrow at a negative interest rate, we would have a recovery. But that's not the interest rate that they're facing.

White: In *The Great Divide*, you talk a lot about the role of politics in economic policy. What are your thoughts on the current presidential candidates? Who are the best and worst options in terms of the effect that their economic policies will have on inequality?

Stiglitz: The most problematic option is clear: Cruz. He's an ideologue. Conservative Republicans like him because he's true to the faith, that means getting rid of social security, making our tax system more regressive, cutting back on all the programs that lean against growing inequality. Of the major candidates remaining, he stands out as the person most likely to do the most harm. I think almost surely both Hillary and Bernie Sanders are very very committed to a pro-equality agenda, and the differences are more in details, more in one's confidence in their ability to execute this in a political context. Trump is an interesting candidate. One has the sense that he, for instance, is not against social security in the way that Cruz is. So he's not rolling back some of these things that would bring us back to the 19th century.

Most of the models used by economists ignored inequality.

White: What about the current president? Are you generally disappointed with the way the Obama administration has handled economic policy?

Stiglitz: I guess I would say so overall, but not compared to the way it would've been handled by Romney or Bush. The stimulus should have been larger, deeper, longer. The bank bailout should have been more focused on helping small and medium sized banks, on helping homeowners. I think the trade agreements are a disaster. On the other hand, I think Obama's Affordable Care Act was a move in the right direction.

A big question, in all of these areas, is could he have gotten more out of Congress? That's a very difficult political judgement. I think a lot of people feel that in those first two years where there was a Democratic president and a Democratic Congress he could've gotten a lot more done—he was just too conservative. He was too much in the hands of the banks, too much in the hands of big business, too much in the hands campaign contributors. He's done a lot of things by executive order in the last year, like raising the minimum wage and climate change. But a lot of people are wondering, why did he wait? The issue on fiduciary standards for investment, that seems a no brainer and now it's being challenged, will he be able to get these through in his last few months in office. These were known to be problems before, why didn't he do it earlier?

White: Early on in *The Great Divide* you ask who is to blame for the crisis and the inequality that grew after it. One of the answers you say are economists. To what extent do you feel economist and economic theory is culpable for the crisis? What is the role of an economist going forward?

Stiglitz: The prevalent ideology—when I say prevalent it's not all economists — held that markets were basically efficient, that they were stable. You had people like Greenspan and Bernanke saying things like "markets don't generate bubbles." They had precise models that were precisely wrong and gave them confidence in theories that led to the policies that were responsible for the crisis, and responsible for the growth in inequality. Alternative theories would have led to very different policies. For instance, the tax cut in 2001 and 2003 under President Bush. Economists that are very widely respected were cutting taxes at the top, increasing inequality in our society when what we needed was just the opposite. Most of the models used by economists ignored inequality. They pretended that macroeconomy was unaffected by inequality. I think that was totally wrong. The strange thing about the economics profession over the last 35 year is that there has been two strands: One very strongly focusing on the limitations of the market, and then another saying how wonderful markets were. Unfortunately too much attention was being paid to that second strand.

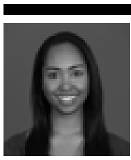
What can we do about it? We've had this very strong strand that is focused on the limitations and market imperfections. A very large fraction of the younger people, this is what they want to work on. It's very hard to persuade a young person who has seen the Great Recession, who has seen all the problems with inequality, to tell them inequality is not important and that markets are always efficient. They'd think you're crazy.

White: If you had to pick the biggest area of concern when it comes to inequality. What would it be and what would be the first step for fixing it?

Stiglitz: I think the change in labor law that has weakened bargaining rights of workers obviously has a very adverse effect. But there are two major things I would focus on: one is education. When you don't have equality of opportunity because you don't have equal access to education, it just seems so outrageous. It weakens our economy and leads to more inequality. We have a locale-based education system, we have increasing economic segregation, we clearly need a larger federal program to try to help disadvantaged districts.

The second major issue: 50 years after the march on Washington, 150 years after the end of slavery, we still are suffering from the legacy of that, and we have problems of inclusion. Racial inclusion, gender inclusion, and that dimension of inequality is so undermining of our society. That's something we could do something about quite clearly in terms of affirmative action, the discrimination that the banks engaged in before 2008, the agenda of Black Lives Matter, the mass incarceration. On gender issues, we are one of the only countries that doesn't have family leave policies. We're so far out of line with the other advantaged countries. Those are two things that I think are the most striking in the sense that they are inconsistent with deeply held values and are leading to both more inefficiency and more inequality.

ABOUT THE AUTHOR



GILLIAN B. WHITE is a senior associate editor at *The Atlantic.*

Twitter Email