Profile

"Everything the neoliberals said was wrong"

The Nobel laureate Joseph E Stiglitz on the economics of the climate emergency

By Jonny Ball

In 1960, Gary, Indiana, was home to 178,000 people. The town's lifeblood was the steel industry – Gary was even named after the first chairman of the United States Steel Corporation, Elbert Gary – and at its height the steelworks directly employed over 30,000 people. In the early 20th century, waves of migrants flowed into the city seeking work on the southern coast of Lake Michigan in factories well-placed to feed the assembly lines of Chicago and Detroit as the US became the world's dominant industrial powerhouse following the First World War. But in the second half of the 1900s, the city went into decline. Like many Rust Belt towns, its over-reliance on a single industry left it vulnerable to the ebbs and flows of world trade, globalisation and technological advance.

Today, the town's population is barely over a third of its peak. The exodus began as US steel became exposed to lower-cost imports. The industry now employs just a sixth of the workers it once did, and Gary is more likely to be mentioned for its 13,000 abandoned, decaying buildings than for its impressive output of quality steel.

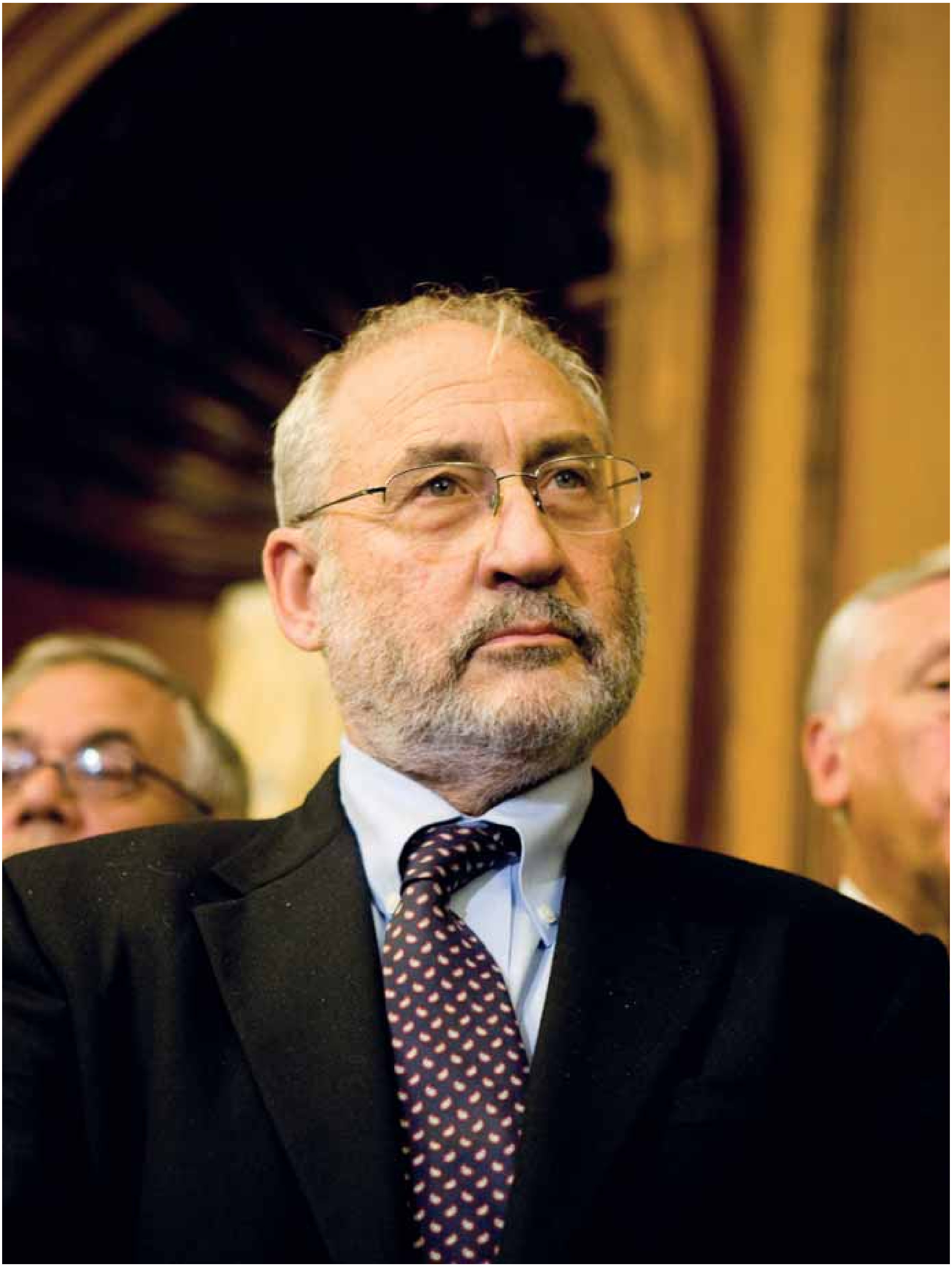
"There must have been something in the air of Gary that led one into economics," writes Joseph E Stiglitz, the Nobel prize-winning economist, former chief economist at the World Bank, former chair of Bill Clinton's Council of Economic Advisers, and university professor at Columbia University. "Certainly, the poverty, the discrimination, the episodic unemployment could not but strike an inquiring youngster: why did these exist, and what could we do about them?"

Far from echoing the paeans to economic liberalisation that have often been the hallmark of mainstream economists for the past four decades, Stiglitz has been a consistent critic of untrammelled globalisation and laissez-faire, free-market orthodoxies. Speaking over the phone from his office in New York, he tells *Spotlight* "the world faces a huge inequality crisis. Anybody looking at the data of the last 40 or 50 years has been astounded... in my own academic lifetime I have seen numbers moving in ways that are hard to believe."

Born in 1943, the neo-Keynesian came of age in a period of healthy post-war growth; robust, interventionist states; and a heavily unionised labour force. He was a fervent opponent of the extreme fiscal conservatism embraced by governments in response to the 2008 financial crisis. During the Occupy movement he wrote that inequality and austerity dampened productivity, harmed growth and threatened the future of our democratic politics (as well as hampering our ability to deal with long-term threats such as climate change). "What is disturbing to me," he says, "is that when people are not content, if they don't understand the underlying sources... They can fall prey to a demagogue."

In the 1990s, Stiglitz sat on the Intergovernmental Panel on Climate Change (IPCC), the UN body established to monitor and study human-induced global warming and its effects. At that time, he says, "it was already clear that it was real, significant, and was going to have a big impact". But since then, the potentially devastating shockwaves have only become more apparent.

The latest IPCC report, released in February of this year, warned that the impacts of climate change were making themselves felt beyond the upper limit of previous estimates. Secondary effects are accelerating warming in ways that were previously unforeseen. "Several of the issues that have come to prominence over the last 30 years just weren't part of our awareness," Stiglitz says. "The melting of the Arctic ice cap, which ▸



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◂ leaves the Earth unable to absorb as much heat; the methane gas release in the tundra, which is again an explosive kind of event; the breaking off of the Antarctic ice caps and glaciers – we were aware of the presence and possibilities of these non-linear systems and feedbacks of that kind but we weren't really aware of the magnitude of it. We just didn't really know."

In spite of the increasingly dire warnings of climate scientists, the Nobel laureate remains "basically fairly optimistic" that the world can limit warming, adapt and mitigate its effects. But it will take new approaches to public investment, a rethinking of the relationship between markets and the state, and dynamic ways of mobilising financial resources that break with the past four decades of omnipotent market fundamentalism.

Not everyone is convinced. Conservatives on both sides of the Atlantic have the green agenda in their crosshairs. The Trumpist Republican Party remains resolutely opposed to the Paris Agreement. Stiglitz recalls that "even Republicans were worried [about the climate]" 30 years ago. "The question was only how fast we should take action. There was no movement of climate denial… It hadn't been politicised in the way that it has now."

In the UK, a Net Zero Scrutiny Group has formed on the Tory party's backbenches, hoping to emulate the success of the Eurosceptic Spartans of the European Research Group. Some are sceptical of man-made climate change, some think we should save ourselves the trouble while China opens up new coal power stations, and others baulk at the government's Green Industrial Revolution for its excessively statist, tax-and-spend, Labour-ish policy proposals. Traditional, small-state Thatcherites and deficit hawks on the government benches bemoan the exorbitant cost of the green transition: the Chancellor, Rishi Sunak, is known to be a stickler for balanced budgets that have reined in the natural tendencies of a spendthrift Prime Minister.

In the post-Covid era, with bloated levels of sovereign debt, a squeeze on household spending power, and rapid inflation on the horizon, some question the affordability of ambitious environmentalism. "I focus on the real side of the economy," Stiglitz says. "I focus on questions like, 'do we have enough demand for labour and capital to keep everybody fully employed?' But in terms of the questions raised about finance, of 'can we afford it?' Well, if we can manage the real side, then the finance can always be triggered to ensure that it's not a problem. I'm not worried about the finance side, particularly in a world where interest rates have remained relatively low."

We're speaking at the beginning of the year, before the Bank of England and the Federal Reserve raised interest rates citing concerns over the highest inflation figures in 30 years. That will mean the cost of both public and private borrowing will grow, government debt will be more expensive to service, and investment, consumer demand and economic activity will be suppressed. Economists in the monetarist tradition have pointed the finger at the bulky stimulus programmes and coronavirus-related recovery spending initiated by governments in response to the pandemic. That spending was buttressed by successive rounds of quantitative easing – newly created money pumped into government bonds in order to support stressed treasuries.

But the celebrated economist is sceptical of excess demand being at the root of inflationary pressures. "Any economist will tell you [that] you have to live within your resource boundaries, that there are limitations on resources," he says, pouring cold water on the more extreme claims made at the fringes of so-called Modern Monetary Theory. "But we've been obsessively focused on that. Inflation has not been a significant problem for 40 years. And even the inflation we had in the 1970s, 50 years ago, was supply-side not demand-side inflation, when the price of oil soared. It wasn't profligacy that led to that inflation, it was a supply shock. And the way to respond to a supply shock is not to kill the economy by raising rates."

> "Discontented people can fall prey to a demagogue"

Yet these warnings look set to be ignored. Spooked by rising prices, the major central banks are expected to begin successive rounds of rate increases in the coming months and even years (although, at 0.5 per cent, the cost of money is still extremely low in historical terms). The ongoing conflict in the Ukraine will further increase pressure on prices, as agricultural exports from the bountiful Black Sea region, as well as from the world's largest wheat exporter, Russia, are disrupted. With much of their foreign currency reserve cut off by sanctions, Moscow's lucrative trade in oil and gas to Europe – now effectively financing their foreign wars both in Syria and in Europe's periphery – will come under intense scrutiny as costs per barrel reach 14-year highs. Despite troop build-ups and the warnings of US and UK intelligence, when Stiglitz spoke to *Spotlight* the mooted invasion of Ukraine felt distant and implausible. He referred ominously to "new tensions that have arisen between the advanced democracies and some of the countries that are not so democratic", hoping that "we can manage those, recognising that we need to cooperate even if we don't agree with somebody".

The coming years could see a period of "stagflation", with growth stymied by geopolitical instability, energy insecurity, an effective severing of the economic ties between the West on the one hand and China and Russia on the other, continued price rises in the midst of resource scarcity, and a period of deglobalisation. Even prior to the conflict, a shift in economic thinking had been diagnosed in a world transformed by both the imperatives of the coronavirus and of accelerating climate change. The age of neoliberal triumphalism, of worldwide market integration, of trade liberalisation and of limited government is over.

"I think that many people took globalisation too far," Stiglitz contends. "Everything that the neoliberals told us – that everything was going fine, that there was trickle-down economics, that everybody was doing well – that was all so obviously a lie, was so obviously wrong. And there was such discontent growing, with people not knowing why it was failing – but something was clearly wrong." ●