Joseph Stiglitz: ‘Current monetary policy is not going to work’

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May 9, 2015 – *The Globe and Mail*

The debate over economic inequality has gone global since the 2011 Occupy movements. Yet, the last five years have seen little, if any, concrete action by governments on the issue. Why the disconnect?

I think one of the main reasons is that, in the years following 2008 and the global financial crisis, our collective attention was focused on survival. Would the economy recover? Could we get it to grow again? What would we do about employment? There is a political element in this as well. In the first three years of recovery in the United States, 91 per cent of all the income gains went to the upper 1 per cent. For an economy that claims to be a success, this is an outrage. Seventy per cent of Americans believe it is an outrage; they believe something should be done. And yet our fractured politics in Washington and the ideology of the right has put up road block after road block to prevent meaningful reform.

The good news is that, since 2011, a grassroots movement has developed around the U.S. So, while there may be gridlock in Washington, there is action being taken to roll back inequality in places like Seattle and other cities. I suspect similar forces are at play in countries around the world.

Unpack for us why you think rising inequality has been an important factor in the slow and un- even pace of the U.S. recovery?

You are not going to have robust growth without adequate demand. The people at the top who have seen big income gains are saving large portions of their income, on average 35 per cent. Those at the very top are not spending their money. People at the bottom, on the other hand, have no choice. To just get by, they have to spend all their income. So, when you have this redistribution of wealth from the bottom to the top, total demand weakens and total growth weakens. This why I've always said that current monetary policy is not going to work because quantitative easing is based on a variant of trickle-down economics. The lower interest rates have led to a stock-market bubble – to increases in stock-market prices and huge increases in wealth. But relatively little of that's been translated into increased and broad consumer spending.

How do you respond to critics who say that the cure you are prescribing is worse than the disease? Specifically, by ramping up tax rates on the wealthy, you get capital flight and a less dynamic economy with fewer risk takers.

The contention that the people at the top are the job creators and, if you tax them at higher rates, they won't create the jobs, is nonsense. The fact is there are talented entrepreneurs at all levels of the U.S. economy. Whenever there is demand, jobs get created and entrepreneurship flourishes. It is not a lack of cash that is holding back the U.S. economy. Our big corporations are sitting on upwards of $2-trillion. The reason they are not investing it is there's no demand for their goods. I believe very strongly that, if we can get the economy growing by more equitably sharing income gains and investing in our future, our fiscal position will be stronger, growth will be higher and we will create a more equal society now and for the long run.

What about those who blame the stagnating incomes of the middle class on developed countries not fully liberalizing their economies in terms of trade policy, labour markets, foreign ownership and government deregulation?

Around 1980, the United States began a new economic experiment. The [Ronald] Reagan administration decided, “Let's lower the tax rates.” The top tax rates under President [Dwight] Eisenhower had been 91 per cent. And they were brought down to below 30 per cent. We also said: “Deregulate the economy” – on the basis that a combination of profit-making incentives and more economic freedom would lead to faster growth. It was argued that, while we might wind up with a more unequal society, the total economic pie would be so much bigger that everyone would benefit.

Now we know the results of this experiment. The growth of the economy was actually slower than in the decades after World War II when we had a top marginal tax rate of 91 per cent.

We also have more instability. In the immediate postwar period, we had no financial crisis. Since we deregulated, we've had financial crisis after crisis. In terms of who has done well and who has not, the top 1 per cent has done very well. But in the middle, incomes today are lower than they were a quarter of a century ago and minimum wage adjusted for inflation is basically at the level it was a half-century ago. Any economy which doesn't deliver for the vast majority of its citizens for decade after decade is a failed economy. The results are in. We need to try something else.

What do you think of French economist Thomas Piketty's argument that the postwar period you celebrate as a time of strong and equitable economic growth was a historical aberration?

Where I differ from Piketty is the question of whether the situation we are in today is a consequence of the inevitable characteristics of capitalism or the result of the policies and politics that we adopted. I believe very strongly it is a matter of choice, that there are alternatives and that growing inequality is not an inherent aspect of capitalism.

For instance, right now we're debating a major new trade agreement, the Trans Pacific Partnership. There are provisions that would make it more difficult to regulate corporations to protect consumers, the environment – that make it much more difficult to adopt regulations that structure our economy to make sure all of us benefit from increased trade. It is an example of a negotiation with the voices of the 1 per cent very present at the table, and the voices of the other 99 per cent not present at all.

What countries are addressing inequality in ways that improve, not impair, their economies?

Take Mauritius, a small, relatively poor country, yet it is one of the fastest-growing in its region. To promote societal cohesion and as a development strategy, their government implemented universal, four-year college education and access to health care. Obviously, their educational and health-care standards are not the same as they would be, say, in the U.S. But what Mauritius highlights is that it's a matter of choice whether you take the wealth of a country and give it to a few people or you share it. Their government has shown that you actually grow better economically if you have this kind of wealth sharing.

Where does the debate over inequality go from here?

Whenever you have the kind of economic inequality that we have in the United States and in other countries, it translates into political inequality. Some of the people at the top understandably want to keep the current system working for their benefit. So, this is not going to be an easy battle. But I think there is an increasingly large number of people who understand that things are not working and that we are not living in the land of opportunity that we thought we were. Ultimately, I am optimistic, given that the issue of economic inequality has reached the top of the public agenda. There are now grassroots movements in the context of minimum wages and, when I talk and write about inequity, the response is so positive that I can't help but be heartened.