

## **Joseph Stiglitz: 'The American Dream Has Become a Myth'**

**By Spiegel Online: Reader Supported News**

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The finance industry is to blame for the growing divide between the rich and poor in the United States, says Nobel Prize-winning economics professor Joseph Stiglitz. In an interview with SPIEGEL, he accuses the industry of preying on the poor and buying government policies that help them get richer.

At Columbia University, which is located just blocks from Harlem in Manhattan's West Side, wealth and poverty are closer together than they are in many places in New York City. This is where American economist and 2001 Nobel Prize winner Joseph Stiglitz works as a professor. The Gary, Indiana native has spent years examining social inequality. His first personal experience with the issue came when, as a young boy, he asked why his nanny wasn't caring for her own children. Later, as the World Bank's chief economist, he studied the phenomenon on a global level. In June, he published a book on the topic entitled "The Price of Inequality: How Today's Divided Society Endangers Our Future," which has just been released in German as well. In a SPIEGEL interview, Stiglitz discusses how wealth disparity is dividing America and how Europe can best overcome the euro crisis.

**SPIEGEL:** Professor Stiglitz, how do you expect the next President of the United States to tackle the problem of unequal distribution of wealth?

**Stiglitz:** First, he has to recognize that there is a problem at all. Watching inequality grow is like watching the grass grow. You don't see it happening day by day, but over a period of time it becomes visible.

**SPIEGEL:** What is the scale this inequality?

**Stiglitz:** In the last decades, income and wealth disparity have grown dramatically in this country. Let me give you an example: In 2011, the six heirs to the Walmart empire commanded wealth of almost \$70 billion, which is equivalent to the wealth of the entire bottom 30 percent of US society.

**SPIEGEL:** The US has always thought of itself as a land of opportunity where people can go from rags to riches. What has become of the American dream?

**Stiglitz:** This belief is still powerful, but the American dream has become a myth. The life chances of a young US citizen are more dependent on the income and education of his parents than in any other advanced industrial country for which there is data. The belief in the American dream is reinforced by anecdotes, by dramatic examples of individuals who have made it from the bottom to the top -- but what matters most are an individual's life chances. The belief in the American dream is not supported by the data.

**SPIEGEL:** What do the numbers suggest?

**Stiglitz:** There has been no improvement in well-being for the typical American family for 20 years. On the other side, the top one percent of the population gets 40 percent more in one week than the bottom fifth receive in a full year. In short, we have become a divided society. America has created a marvelous economic machine, but most of the benefits have gone to the top.

SPIEGEL: With five more weeks to go in the presidential campaign, inequality hasn't played a serious role yet, though.

Stiglitz: It has been a topic, but typically only underneath the surface. One cannot expect a scientific debate on the Gini coefficient, the statistical measure of inequality. But when the Democrats say that they are supporting the middle class, they are really talking about inequality. And they highlight the contrast with the Republican candidate Mitt Romney, who is emblematic of the top one percent of the population. Romney's denigration of the 47 percent of Americans who don't pay income taxes had an enormous reaction, partly because it showed how out of touch those at the top were with the rest of the country.

SPIEGEL: The Occupy movement's political slogan was "We are the 99 percent." But who exactly represents the one percent?

Stiglitz: It is the group of people who get 20 to 25 percent of the income. Their share has doubled in the last 30 years. And they own about 35 percent of the wealth or more. They have the best houses, the best education and the best lifestyles.

SPIEGEL: Don't the rich also give something in return? In Germany, the upper one percent contributes almost a quarter to the tax revenue, and the top ten percent more than half of the taxes. Isn't that an appropriate share?

Stiglitz: I don't know about the German numbers. What I can say is that the top one percent in the United States has an average tax rate of less than 30 percent of their reported income, and the large proportion who take much of their income as capital gains pay far less. And we know that they are not reporting all of their income.

SPIEGEL: We thought that as a rule Americans don't begrudge the rich their wealth, though.

Stiglitz: There is nothing wrong if someone who has invented the transistor or made some other technical breakthrough that is beneficial for all receives a large income. He deserves the money. But many of those in the financial sector got rich by economic manipulation, by deceptive and anti-competitive practices, by predatory lending. They took advantage of the poor and uninformed, as they made enormous amounts of money by preying upon these groups with predatory lending. They sold them costly mortgages and were hiding details of the fees in fine print.

SPIEGEL: Why didn't the government stop this behavior?

Stiglitz: The reason is obvious: The financial elite support the political campaigns with huge contributions. They buy the rules that allow them to make the money. Much of the inequality that exists today is a result of government policies.

SPIEGEL: Can you give us an example?

Stiglitz: In 2008, President George W. Bush claimed that we did not have enough money for health insurance for poor American children, costing a few billion dollars a year. But all of a sudden we had \$150 billion to bail out AIG, the insurance company. That shows that something is wrong with our political system. It is more akin to "one dollar, one vote" than to "one person, one vote."

SPIEGEL: Ninety-nine percent against 1 percent: That actually sounds like the perfect setting for a revolution. Why are things still so calm in the US?

Stiglitz: The United States doesn't have much of a revolutionary spirit. My real concern is that people get alienated from politics. In the last election we had a voter turnout among young people of around 20 percent. These are the people whose future is most at stake, and 80 percent of them think it's not worth to vote because it is a rigged system and in the end the banks are going to run the country anyway.

SPIEGEL: The Occupy movement wasn't able to become a powerful factor. Why did it fail?

Stiglitz: It became an anti-establishment movement, and one aspect of being anti-establishment is anti-organization. You can't have a movement that is not organized. Anyway, the frustration is still there. I'll tell you a story: I recently went to see Bertolt Brecht's "Threepenny Opera." When it came to the line, "What is the crime of robbing a bank compared with the crime of founding one?", the whole audience started clapping.

SPIEGEL: Four years ago, we quoted that line on a SPIEGEL cover about the banking crisis.

Stiglitz: Really? It was not a rabbleroxing crowd that night in the theatre, but to me it was saying something about the extent to which this has reached the psyche of Americans.

SPIEGEL: What is on their mind?

Stiglitz: The people fear losing their job. Even if they have a job they are not certain of keeping it. What they are certain of is that if they lose a job it is hard to get another one. Everybody knows someone who can't get a job...

SPIEGEL: ...or who lost their home.

Stiglitz: This is another source of anxiety. More than a quarter of all homeowners owe more money than the value of their houses. We need a growth strategy to stimulate the economy. We haven't invested enough for 30 years -- in infrastructure, technology, education.

SPIEGEL: With a debt burden of \$16 trillion there is not much room for maneuvering.

Stiglitz: The United States can borrow at close to a zero percent interest rate, we would be stupid not to invest more money and create jobs. And we could also make efforts to ensure that the super-wealthy pay their fair share. We could raise more money in a variety of ways. Look at the mining companies: The government grants them the right to extract resources for far less than it should, but auctions could make sure that they pay appropriately.

SPIEGEL: So your answer to the inequality problem is to transfer money from the top to the bottom?

Stiglitz: First, transferring money from the top to the bottom is only one suggestion. Even more important is helping the economy grow in ways that benefit those at the bottom and top, and ending the "rent seeking" that moves so much money from ordinary citizens to those at the top.

SPIEGEL: Is redistribution also the strategy when it comes to Europe and the euro crisis -- moving money from the north to the south?

Stiglitz: The main problem in Europe right now are the austerity packages, they depress demand and weaken economic growth. The reversal of this policy is absolutely essential to develop growth and more equality.

Spain, for example, gets weaker and weaker, money flows out of the country, and it is a vicious downward spiral.

SPIEGEL: Isn't the real problem the lack of competitiveness? Spain and the other countries in crisis have lived beyond their means, that's why they are in trouble.

Stiglitz: No, Europe's crisis is not caused by excessive long-term debts and deficits. It is caused by cutbacks in government expenditures. The recession caused the deficits, not the other way around. Before the crisis Spain and Ireland ran budget surpluses. They cannot be accused of fiscal profligacy. More fiscal discipline will only worsen the downturn. No economy ever recovered from a downturn through austerity.

SPIEGEL: Really? What about Estonia or Latvia? With severe pay cuts the Baltic states boosted productivity and recovered.

Stiglitz: They are small economies. They can make up for the loss of government spending by more exports. But that doesn't work with a fixed exchange rate and when your trading partners are not doing well. The crisis countries don't suffer from excessive spending. The problem is not supply but demand. It is the responsibility of monetary and fiscal policy to maintain the economy at full employment.

SPIEGEL: No matter what the costs? No private household can live beyond its means permanently. Why should governments be exempted from that rule?

Stiglitz: Because countries are different from households. If a citizen cuts back his spending, it is without any consequences for the country. Unemployment does not increase. But if the government cuts back its spending, it has a major effect. An expansion of spending can increase production by creating jobs that will be filled by people who would otherwise be unemployed.

SPIEGEL: You assume that a government knows best where to create jobs. Don't you overestimate that ability?

Stiglitz: We need roads, bridges and airports. That's obvious. The returns from public investments in technology on average have been very high -- think about the Internet, the Human Genome Project and the telegraph.

SPIEGEL: There are also many examples of public money that was wasted. The US space program cost a fortune, and the results were questionable.

Stiglitz: But even those expenditures are still less than the money wasted by America's private financial sector, and the billions spent to bail out companies from the financial sector. One corporation alone, AIG, got more than \$150 billion -- more than was spent on welfare for needy families from 1990 to 2006.

SPIEGEL: The government also became owner of these companies and even managed to sell parts of them with a profit, though. Aren't you afraid that this strategy of ever bigger stimulus packages might lead to inflation?

Stiglitz: Not necessarily. The central bank has the ability to take out liquidity from the system.

SPIEGEL: But it is much harder getting the liquidity out than getting it in.

Stiglitz: A well-managed central bank has lots of tools. It can raise interest rates or reserve requirements for private banks. So I think there is actually relatively little danger. The weakness in the European economy poses much more of a risk than any risk of moderate inflation. Better some job where the pay has declined in real terms by a few percent than no job at all.

SPIEGEL: What do you think Europe's future prospects are?

Stiglitz: Europe is facing a critical point. The alternatives are "more Europe" or "no Europe." The halfway configuration is unstable.

SPIEGEL: Which option would be better for Germany?

Stiglitz: Both strategies will cost Germany money, but the "more Europe" option will cost less. Europe needs a common banking system and a common financial framework. If Europe borrows as a whole it could have even better access to credit than the United States. So "more Europe" is not only better for Spain or Italy, but also for Germany.

SPIEGEL: Professor Stiglitz, we thank you for this interview.