

The Price of Inequality: How Today's Divided Society Endangers Our Future

Joseph E. Stiglitz

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Abstract

Inequality in income and opportunity involves significant economic and social costs. This paper critically reviews the arguments made in the book entitled The Price of Inequality: How Today's Divided Society Endangers Our Future by Professor Joseph Stiglitz. The central theme of this book is that political and economic forces have shaped and reinforced the extent to which concentration of income at the top is generated and protected by institutions in which the rich members of society exert considerable influence in the design and implementation of public policies.

Keywords: Inequality, opportunity, income distribution, economic policy

要旨

所得や機会の不平等は、大きな経済的・社会的コストをもたらすことになる。本稿は、ジョセフ・スティグリッツ教授の議論（邦訳『世界の99%を貧困にする経済』、徳間書店、2012年）について考察する。本書の主なテーマは、政治的、経済的な力がいかに富裕層に集中し、それらが公共政策の設計に強い影響を与えるかということである。

キーワード：不平等、機会、所得分配、経済政策

The Price of Inequality is a significant contribution to the policy debate on the real cost of inequality in income and opportunity. Professor Stiglitz of Columbia University, winner of the Nobel Prize in Economics, concisely synthesized the voluminous work of economists on the subject and supported his argument with strong evidence on the recent deterioration in the pattern of income distribution in the United States of America. The data on the concentration of income at the top indicates that the top one percent of the population earns as much as twenty percent of total income and owns nearly a third of the national wealth. This process has contributed to excessive divergence not only in income and wealth but also in inequality of opportunity and social mobility.

The central theme of the book is that deregulations and unfettered powers of the market have given rise to an unjust and inefficient economic system in which the powerful influence the decision making process and promote their economic interest at the expense of the rest of the population. Professor Stiglitz then turns his analysis on the causes of inequality in income and its evolution over decades and more importantly what would be the role of public policies to address the challenge. He developed a political economy argument the essence of which is that government policies, instead of market forces alone, are responsible for creating and perpetuating inequalities in income. The book outlines the underlying causes of recent deterioration in income distribution to ideologically driven measures of right wing politicians and economists to dismantle government programs and regulations that were instrumental in addressing the problems of excessive inequality in income and opportunity. He discusses the forces and policies that were largely responsible for concentration of income at the top and loss of opportunities for the middle and low income households. These broadly include inadequate financial sector regulations, weakening corporate governance, creation and protection of huge subsidies for the rich, tax loopholes, rents and monopoly profits, and elimination of government programs that helped poor and middle income people have a fair start in life. Most of these factors created huge rent for the rich but with limited economic opportunities for the rest of the population. The economic rent for the rich was created and protected by government policies as well as political institutions that were designed to promote the interests of the rich.

Establishing theoretical and empirical evidence to test the hypothesis that the growth of income at the top happens at the expense of middle income and poor households is still contentious. The book argues from a political economy perspective how government policies and deregulation measures marginalized the interests of middle and low income families. Rent seeking behavior of the supper rich and their collective effort to buy

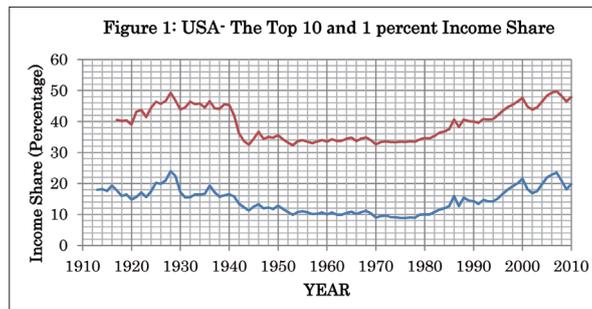
influence in politics are driving forces of inequality where the rich use their economic muscle to shape politics and economic policies to their own economic interest. Market forces, the book emphasizes, operate within a socio-political environment and their outcome is influenced by the effectiveness or failure of government policies to bring about a robust and equitable economic system. The morale of the argument is that addressing the problems of inequality on a sustainable manner requires reforming the political forces and government policies that give rise and sustain them.

The book was written in a typical provocative style with a rich reference of data and research on the subject matter. Notes and references cover a quarter of the book. It is a book on inequality but touches a wide range of issues in politics, social mobility, democracy, discrimination, justice, accountability, and competitiveness with a view that all of them are influential factors and are also influenced by inequality. The book summarizes previous works on the economics of inequality and connects effectively the diverse views and research findings in the field and provides ample questions and hypothesis that need to be addressed in future research.

Economists have wrestled with the idea of inequality for quite a long time and proposed public policy measures that would mitigate the problem. The issue of income distribution and inequality has been used by both the Left and Right aisles of the ideological divide as a weapon of choice to reject or support the role of the government in economic affairs. The Right considers inequality as an unintended consequence of a market system that rewards economic agents according to their respective contribution to the economy. So long as income inequality is the reflection of inequality in capability, there is nothing wrong about it except encouraging economic agents to improve their capabilities through their effort and investment. The Left, with which Mr. Stiglitz identifies himself, rejects this notion and argues that market failure is pervasive and income concentration at the top hardly reflects the contribution of these economic agents to economic output and social outcome. Inequality instead deprives society of realizing its economic and social potentials and condemns those with limited opportunities to accept absolute poverty as a fact of life. Government policies are necessary to correct market failures and mitigate excesses by powerful and rent seeking segments of society.

The evidence on the concentration of income in the United States exhibits distinctive features and tendencies. Recent income share data indicate that the top ten percent of households received on average 44.81 percent (42.49 percent excluding capital gains)

of the total pre-tax income from 1990-2010 (Alvaredo et al.). Moreover, over the period 1979-2010, the average real income of the richest ten percent of households grew at 2.16 percent per annum relative to 1.01 percent for the average for all households. The cumulative divergence of rich households is evident over the decades. As figure 1 graphically depicts, income concentration at the top has broken the historical peak that was observed just before the Great Depression towards the end of the 1920s. The United States managed to reduce income concentration at the top during and after World War II when government policies to promote social and educational programs towards the middle class accompanied by highly progressive income taxation helped compress the distribution of income for about four decades. Average and median income of households grew but those at the bottom and the middle enjoyed better growth in income.



Source: Computed from Alvaredo et al., 2012

The second wave of income concentration, which Krugman termed as the Great Divergence, began in earnest in 1979 (Krugman 2007). While the mean and median incomes were increasing, most of the benefit during this period accrued to the top quintile and top ten percent of the population (CBO 2011). The share of income for the top one percent of households doubled since 1980, making the rich richer and the poor poorer. Some of the contributing factors include globalization, labor market regulations and weakening labor unions, fiscal and taxation policies, public sector spending program reorientations, financial sector deregulations, immigration, Information and Technology revolution, discrimination, and government policies. The central argument of the book contends that government policies, both what it did and what it failed to do, constitute the real culprit behind the emergence of huge rents that the rich and the powerful exploited to their own advantage. While market forces and other contributing elements played a limited role, ultimately the problem of inequality is political and requires reforming the political institutions to address them.

The road map to a sustainable and balanced policy towards income inequality and efficiency involves eliminating barriers to social mobility, access to quality education, creating more employment opportunities, and using fiscal and monetary policy to promote shared and equitable economic growth. Besides the problems of inequality, the United States is faced with the problem of economic stagnation, unemployment, and unsustainable public debt. The situation calls for a multipronged approach one of which is prudent fiscal policy that constrains the government to spend within its revenue limits, reorient public spending to more productive programs, and address the public debt issue. There are productive public expenditures that are essential for the functioning of a modern economy and generate positive externalities for the private sector to benefit from. At the same time, there is a widespread recognition that public spending is largely wasteful and feeds the rent seeking behavior and lobbying industry. The nation needs to learn how to live within its own means instead of creating inequality across generations in which the current generation spends on borrowed money and the future generation is forced to pay for the excesses of the past.

The critical theoretical and policy challenge for addressing the public policy puzzle is related to how the bottom ninety to ninety-nine percent of the electorate and population failed to mobilize its political capital and reform the system through democratic institutions. Mr. Stiglitz argues that the rich persuades the middle class to see the world in a distorted way that confuses their own interests with that of the rich. The idea that the top one percent somewhat made the rest share its perception and does not know its economic interest and choices is not compelling. Yes, perception and intellectual capture have strong influence and the rich might have the incentive, resources and will to shape the perception of the masses to its advantage through the influence of the media, public offices, and other venues. The political disenfranchisement of the middle class and its alienation from the political process is an issue of concern that would affect its economic and social interests now and in the future. The median voter is richer than the median income earner in the United States. The battle of ideas, if they are to have a lasting impact, should focus on empowering the middle class to appreciate and exercise its political rights and social responsibilities. The price of inequality is intimately related to the price of civilization that requires members of society to exercise their rights as well as responsibilities in line with social objectives. The American electorate seems to be almost equally divided. Mr. Stiglitz admits the failure of the political and electoral processes and apparently suggests following the examples of Australia, Belgium and Luxembourg where the electorate is obliged to vote during elections. This is a research challenge that deserves further careful exploration and analysis from the perspectives of multidisciplinary research.

The book delivers a powerful message to all stake holders about the price of worsening inequality for current and future generations and the author urges public policy and institutional reforms. His analysis of the problem came up with a stark warning of failure to undertake serious reforms. Relative as well as absolute poverty within affluent societies could indeed have costly consequences. Data from the Census Bureau indicates that 46.2 million Americans, or 15.0 percent of the population, live in poverty in 2011 (DeNavas-Walt et al. 2012). And how the United States approaches, addresses, and resolves the challenges of inequality in income and opportunity has a profound effect on public policy in other developed countries that have confronted similar problems.

Professor Stiglitz concludes his book with a recipe of reform agenda that covers both economic policy and political reforms that could make the system more efficient, generate jobs, and addresses the problems of inequality. He contends that a better system is possible provided that the necessary reforms are undertaken in time. And yet, he is more pessimistic about the political process and America's ability to undertake the necessary reforms because the powerful and moneyed interests have the incentive and resources to fight against it. The book ends with a veiled warning to the rich by reminding them about the potential dangers of ignoring the plights of the bottom ninety-nine percent and the divided society of the haves and the have-nots. The progressives had the audacity to hope during the 2008 Presidential election and its potential to markedly reverse the long trend in inequality. That hope was dashed during the first term of the Obama administration and the prospect for significant policy shift is quite weak during the second term. Addressing the challenges of inequality in income and opportunity seems to remain a slow and controversial process, so do the policy reforms and discussions on the subject matter. It is now widely recognized that excessive inequality and concentration of income would be inefficient and bad for sustained economic growth and has political and social risks. The issues of inequality are indeed too complex and contentious to be exhaustively addressed in a single book and yet Professor Stiglitz has managed to elevate the scope and depth of the discussion a step further and has appealed to readers to observe the challenges of inequality from a new and more informed perspective.

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