



2018 City of Sydney Peace Prize Lecture

Another World is Possible

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It's a real pleasure to be in Sydney, and to speak in Town Hall again to such a large and enthusiastic audience. It's also a real pleasure to be on the opposite side of the world from President Trump. And to be in a country where people are debating the question of how to reduce inequality, where in contrast in the United States Republicans are debating how to increase it.

I grew up in what came to be called the golden days of capitalism in America, the 1950s. Though I didn't know it at the time, and it didn't seem so golden at the time. I grew up in Gary, Indiana, founded in 1906 as the home of the largest integrated steel mill in the world. What I saw as a young boy was massive inequalities, huge racial discrimination, constant labor strife, with episodic strikes and recessions, in which my classmates had not even a dime for spending money.

I went off to a rustic, New England college, Amherst College. My ambition was to become a theoretical physicist, but the problems I saw as a young kid—and the larger problems that I saw of a similar ilk on a national scale-- kept gnawing at me, until at the end of my third year, I switched to economics. Like many of the young people here in the audience, I wanted to change the world. As a young undergraduate, I led a group of classmates to go down to the South to help integrate what had been a racially segregated school. Later that year, others doing similar acts of defiance would be killed. As a graduate student, I joined Martin Luther King in his famous march on Washington. His "I have a dream" speech has been a guiding star for everyone who was at that speech for the rest of their lives. Martin Luther King taught us

that peace, racial justice, and social and economic justice are inseparable, and that will be one of my themes today.

Fast forward some fifty years. I had hoped over the interim fifty years, much of which I spent understanding better the economy and what caused inequality, I had hoped we would have broken down racial discrimination, and increased equality and equality of opportunity. After all, we had become so much wealthier that everyone could have had a decent life. The economic conflicts would be a thing of the past. But we in the United States, as in many countries, have become a rich country with poor people. As I studied inequality, especially beginning the late 70s and early 80's it became worse, in some ways much worse.

Many of our societies are being divided as almost never before. Two groups seeing the world in such different ways. One group wanting to impose its world view on the other, and not letting the other create the kind of world of social justice that they would like to have. A hundred years ago, the United States was riven by such divisions, between those who saw slavery as an intolerable abomination, and the other who saw a livelihood depending on one's exploitation of another, and who somehow had constructed a moral compass in which that was permissible. Today, we have a large part of one party—a minority of the country—attempting to impose its will on the majority, in ways which deprive large proportions, both today, and in the future of their basic rights, both their economic and political rights.

I will talk this evening a great deal about America. And it's partly because I understand it, I know it better, I know the data and I've studied it. But it is also because it shows the dangers of what lies ahead for Australia. We don't have a patent monopoly on bad policies. You have politicians who would like you to follow the United States in creating more inequality. And my message to you tonight, which I'll repeat a couple of times, is simple – don't let them. And I'll try to explain a little bit how we have created that kind of inequality in the United States, and how one can fight against it. Let me try to explain some examples of the dissonance between what the majority of Americans want, and what Trump and a minority are trying to impose.

A majority of Americans believe that if you work hard, full time, you and your family should not still be in poverty. Yet today, in America, the minimum wage is but \$7.25 an hour—the same

level adjusted for inflation that it was sixty years ago. Imagine—more than a half century and those at the bottom have gotten no pay rise. Some three quarters of Americans believe that the minimum wage should be increased dramatically. Yet, Congress refuses. The result—one seventh of Americans are on food stamps, but even with food assistance, almost one seventh of the country goes to bed hungry regularly, not because they are on a diet, but because they cannot afford the food they need. 20% of American children are growing up in poverty—this supposedly in the richest country in the world. While a vast majority believe there should be an increase in the minimum wage, our Congress refuses to increase the minimum wage or to provide adequate help for these children growing up in poverty. It should be obvious what this portends for the future.

The response shows both the hope and the ugliness that is in the land. Hope, because across the country, grass roots movements are arising, demanding an increase in the minimum wage. Seattle and other cities from coast to coast have more than doubled the minimum wage to \$15 an hour. Still small relative to some other countries, but better than we have had. What has happened has corroborated innumerable academic studies—little if any adverse effects on employment, in some cases the employment effects are even positive, as the increased incomes stimulate the economy and jobs.

But we have seen the uglier side of the response—in many states, employers have gotten together to get States to pass laws prevent communities from raising the minimum wage, just as they worked to curb unionisation and the ability of workers to collective bargain effectively. Just as they design globalisation to weaken workers' bargaining power further and provide no assistance to those who lost their jobs. If one wants to know why wages have stagnated while productivity has increased enormously over the last forty years, there is a simple reason; There has been a concerted attempt to suppress wages, weaken unions and workers acting together collectively. And guess what, it worked. We're suffering the consequences. We're suffering the consequences economically, politically, and in terms of the divisions in our society.

There are many other issues on which the vast majority of Americans want change, but a minority are blocking the way. We've had a mass shooting almost once a day for the past year. The vast majority want better gun control. How can we weigh the right to carry an assault

weapon versus the right of individuals to live, let alone to live in peace? The president says that when you pray in a synagogue or church, you should have armed guards around you and carry weapons. What kind of a society is that?

The vast majority of Americans believe our banks should be better regulated, so that they don't cause another Great Recession, so that they don't continue engaging in their predatory activities, moving money from the bottom of the pyramid to the top. And yet, the best we could do was to pass an inadequate law, which the banks immediately began working to roll back. Today, we have a banking system which is at risk of once again imposing another crisis on the world.

Here in Australia, I gather you've had a commission which exposed the lack of scruples of your banking system. I don't want to seem competitive about this, but I think even the best of your banks can't compete with Goldman Sachs. What it did in the 1MDB scandal, robbing Malaysia of billions of dollars, really reflects that America does things bigger and better than other countries. We have more inequality, less equality of opportunity, and the worst banks in the world.

America has one of the most advanced medical systems in the world. Our universities are making breakthroughs every day. And yet, while the US spends more per capita than any other country on health, some 18% of our GDP, our outcomes are among the worse among the advanced countries. And matters are getting worse. For the last several years, life expectancy in the US is falling. Part of this is because of a lack of health insurance. The US is the only advanced country that doesn't recognise the right to health as a basic human right. And the Republicans have stripped health insurance from millions of Americans, making their lives even more precarious. Most Americans want better coverage, but our government is depriving health care from millions and millions.

As a last example, it should be obvious that climate change presents an existential risk to the world. The US has faced hurricanes and forest fires. Australia droughts. Other places floods. The oil, gas and coal companies have known about the dangers for decades and have tried to hide it from us. Science predicted this more than a hundred years ago, before we had the

instruments to measure what was going on. It was another of the triumphs of science. But now that we see the evidence, we are still doing almost nothing. The cost of doing something is negligible compared to the risks of not doing so. We can't afford not to do more. A modest carbon price, a small cost to the economy. Yet we are willing to risk the future of our children. One of the actions I am most proud of is being an expert witness in a suit that is being brought on behalf of 21 young children against the Trump Administration. The children are rightly claiming that they are being deprived of their basic rights, the right to live a future without the risks of the traumas that climate change presents. The suit should go to trial in Oregon in the next few weeks, and I am very hopeful that the children will win.

Conservatives talk about the dangers of deficit spending, because of the harms it does future generations. But anyone who cares about future generations has to support a strong carbon policy. It is simply immoral not to.

Of course, in the US the Republicans showed this talk about fiscal responsibility was all hypocrisy. They have cultivated a very simple set of values, based on short term greed. Money in the pocket of the rich today over everything else—and they are willing to change the economic and political the rules of the game to get it. In three weeks, between December 2017 and January 2018, they doubled the deficit—historically unprecedented in an economy at full employment not at war. Next year, our deficit is expected to be in excess of 1 trillion dollars (a billion billions). For those of you who don't know economics, that's a lot of money. It would be one thing if the money were being spent on schools, on infrastructure, on research. But the Trump administration says we can't afford those luxuries. Rather, we squandered the money on still more money for weapons that don't work against enemies that don't exist and for tax cuts on corporations and billionaires. Our Republican Congressmen pretended to buy the hokum that it would lead to more investment. If they were interested, of course, they could have turned to the detailed study of the effect of corporate tax cuts in Australia by Andrew Charlton, a beautiful study showing that they don't work, they don't increase investment. You are lucky, that you still have enough people who believe in science and evidence, and with that evidence, you turned the proposal down. We didn't, and what's happened is exactly as predicted, the vast majority of the funds went to dividends and stock

buy backs, with no evidence of a sustained uptick in investment, and only minor morsels going to workers—on average, some 10 cents on hour.

Unfortunately, what happens in the US has consequences abroad, both because of the role that the US necessarily plays in global governance, and the example which the US sets. Too many would follow Trump down a road of blame others—immigrants and foreign trade agreements—for our own mistakes. Such demagogues offer no real solutions. Wars, whether trade wars or military wars, leave everyone worse off. It is no accident that belligerents like Trump at one moment are stirring economic conflict, at another armed conflict.

He wants every country in NATO and the western alliance to spend 4% of its income on GDP—for still more weapons that don't work against enemies that don't exist. The last Republican president led us into armed conflict in the Middle East, in a war that violated international law, on pretenses that were false. I wrote about this in my book *The Three Trillion Dollar War*, with Linda Bilmes of Harvard. When we wrote it, we said the numbers were vastly conservative. Today, we know how conservative they were. With more than half of those coming back from Afghanistan and Iraq disabled, the costs of health care and support for these alone are estimated at well over a trillion. And yet, this war has only led to less peace, more conflict in the region. The American Administration would like one to forget about those that died in vain in that conflict, just as they would us to forget about those who died in vain in Vietnam, or in World War I, whose hundredth anniversary we commemorated on Sunday. And yet, this war in Afghanistan goes on and on—now in its eighteenth year, and no sign of peace in the horizon. And think of what we could have done with the three to five trillion dollars that we squandered on that conflict.

This brings me to one of the other central messages of this talk: I am an economist, and I naturally see the world through the lens of economics. One, not the only one, but an important source of conflict around the world is economic inequality.

As I said, economic inequality has soared in the past four decades, and the US is the worst case. Countries that have emulated us have approached our atrocious numbers. This should be an important warning. Some of your politicians and those in Europe used to look at the US GDP

numbers and sought to emulate us. GDP isn't a good measure of what is happening to a society. What we care about is standards of living, and not just of Jim Bezos and Bill Gates, but of the average American. The average income of the bottom 90% of Americans has stagnated for the past four decades, while the top 1% have done very well. Earlier I mentioned that real wages at the bottom are the same as they were sixty years ago. Those without a college education have seen their incomes go down, and this is especially true of males. If you want to understand the kind of support Trump has gotten, just look at the angry men in the Trump rallies, you can understand seeing the numbers why that is. The income in the middle of a full-time male worker in the United States is at the same level it was more than four decades ago. And the full-time workers are the lucky ones. 20% of the male workers can't get a full-time job. Can you imagine a country calling itself successful when large fractions of the population haven't had a pay rise in forty, fifty, or sixty years?

Can you imagine a country calling itself successful when large fractions of the population haven't had a pay rise in sixty years? Those without a college education have seen their incomes go down, and this is especially true for males. In the middle, the income of a full-time male worker—and the full-time workers are the lucky ones—is the same as 42 years ago. 20 % of prime age American men are not working full time.

America used to think of itself as a land of opportunity, the American Dream. Each generation would be better off than the last, and background didn't matter. Yet Only 37% of adults expect their children to be better off financially, and among all the advanced countries, an American child's life prospects are more dependent on the income and education of his parents than in almost any other country. I jokingly tell my students there's one important decision they have to make in their life - choosing the right parents. If they mess up on that choice, the game is over.

The idea of the American dream is unfortunately today a myth. Of course, newspapers write about people who make it from the bottom to the top, or the middle to the top, and reason they write about it is because it's so unusual. I could go on, but the picture is clear and bleak.

But there are large differences across countries. And yet the underlying forces that many people attribute to the increase in inequality are global in nature- technological change and globalisation. And what we learn from that is that inequality is a choice. Australia once was a beacon, but it no longer shines so brightly. It is not the worst of the advanced countries, but it is far from the best. Countries like Australia with amounts of resources should be at the top, after all the resources really belong to everyone and the proceeds should be used to create a shared prosperity. You can tax labour and it might not work as much. You can tax capital and people might not save. But with natural resources, or taxing land, the land can't move and go to another country. Norway has shown how one can use natural resources to create a dynamic and fairer society. You are a rich natural resource country. In the case of Norway, they have not only created a rich and dynamic country, they have put away more than one trillion dollars in a sovereign wealth fund to be divided among only four or five million people. As I said before, inequality is a choice. You, or your politicians, have made a choice that is different from that of Norway. You have chosen more inequality, and to put away less for your future. And unfortunately, you and your children will have to bear the consequences.

The political science literature has shown that when inequality is great across sub-groups of the economy, that country is especially prone to give rise to conflict. And unfortunately, in the US and many other countries that is the case. Our election saw a huge divide between men and women, urban and rural, between those with a college education and those without, between people of colour and especially white males. Most disturbing this election is that the supporters of Trump have been creating their own reality, making themselves immune from evidence, information and science. News that runs counter to what they believe they label fake news. They read their own newspapers and go to their own websites. Twenty-first century communications technologies have made it more difficult for us to form a national community and to reach a common understanding.

This is especially important because we do know a lot both how to create economic growth and how to reduce inequality. We've been studying these matters for years, and economic science has provided some important insights. We know that the one of bases of the wealth of nations is learning, the advances in technology from modern science. The other is the social institutions

which enable us to cooperate and live productively together, notions like the rule of law, markets constrained by publicly set rules and regulations, and democracy with its checks and balances. Obviously, to make our complex society work we have to have truth-telling institutions, like the media, the judiciary, the scientific establishment and our universities, which gather, process, disseminate information and assess the truth. Trump and the Republicans tell us that truth is not important and have waged a full-scale war against all of these institutions. They have attacked the press and have taxed our great universities like Harvard and Princeton. The big lie and the attack on the truth, on the foundations of our epistemology, is precisely what fascists everywhere have done.

There is an important distinction between what gives rise to the wealth of individuals and what gives rise to the wealth of nations. Many individuals get wealthy by exploiting others—this is the basis of the wealth of the south of the US before the Civil War, based on exploiting slavery; it is the basis of the wealth of many of our banks, as they engaged in predatory lending; it is the basis of the wealth of much of our new tech giants, who have exploited by their monopoly power and the big data which they have taken from us. Our for-profit private universities, like Trump University, have learned how to exploit the dreams of those who want to get ahead—giving them nothing in return.

To too large an extent, modern capitalism is based on wealth exploitation rather than wealth creation. In the former, one gets rich by taking from others; in the latter, from adding to the national pie. We often refer to the former as rent seekers, and our society has become rife with rent seeking.

Two changes have made matters worse: there has been innovation in rent seeking—the rent seekers have found better ways of exploiting the rest. And since the era of Reagan and Thatcher, all over the world, the rules of the game have been rewritten to advantage those at the top, and to allow more rent seeking. Anti-trust and competition policy have been weakened, and so has the bargaining power of workers, partly by weakening the foundations of collective bargaining, partly by globalisation gone awry. Financialisation has resulted in money leaving corporations rather than going into them, to create new jobs; and has encouraged the excesses so evident in 2008.

Yes, there are underlying drivers, like globalization and technological change that have had impacts as well, but these too have been shaped by policies, by our rules. With different rules, for instance, technological advances would have been more directed at saving the planet than adding to the roster of the unskilled unemployment.

But there are many countries, both in the developed and developing world, that have taken a different way. Even with the underlying global forces, they have managed to contain inequality, in some cases reduce it. In this sense, as I said before, inequality is a choice. It is not driven by the laws of nature, but by the laws of man. We should be aware, as bad as things are today, they could get worse. The threat of AI and Big Data, for instance, going forward means that everything we have seen in the last forty years could get much, much worse. And climate change is also going to pose a challenge, making inequality that much worse.

But another world is possible. Indeed, the analysis I have just provided is cause for hope: if it is our policies that have brought about this sorry state of affairs, then changing those policies can help create another world. One of the insights of recent research is that more equal societies actually perform better. Conflict is not good for economic performance. In a divided society, one can't even get consensus behind basic public investments in technology, education, and infrastructure.

In this new world, there will be a greater role for government. A modern society is based on innovation, and behind all innovation is basic research, and basic research basically has to be publicly funded. We live in complex urban environments, where there is greater need for public services—public transportation, the provision of public amenities, and so forth. We live in a time of continual economic transformation, and markets don't make these transformations well on their own. All of the successful transitions have required a large role from collective action.

Of course, government must innovate—and indeed, there has been enormous innovation in the public sector, not always reflected well in our statistics. Though our population has expanded enormously in the past fifty years, and the range of services provided by the

government has expanded, the absolute number of government bureaucrats administering this wide range of services in the United States has actually diminished.

There are further innovations which will make a basic middle-class life attainable to larger fractions of the population. We are so much richer today than we were fifty years ago, and yet so many people in our society are finding it more and more difficult to attain the basic prerequisites of a middle-class life. And why is that? It shouldn't be. It should be that because we're wealthier we have more security and a better life. But it's not the way things are working out. And it's because of the political choices that we made.

There are many innovations, Australia's income contingent loan program is an example of social innovation that is being copied in other countries. Public options in mortgages, health insurance, and retirement programs are other ideas that are being discussed. We can redesign social insurance programs to provide greater security at lower costs.

In short, we need a new social contract for the 21st century, and a new economic vision. We're seeing in the United States a foreshadowing of the dystopia into which we may so easily fall, with a few at the top having lives of comfort, the rest struggling to get by. This needn't be.

Australia should not take for granted what it has. There are politicians that would like to take away the programs that have led to your shared prosperity. Don't let them. The simple message of this talk is that we don't need to have the kind of divided society that we see in the United States and in so many other countries, a dystopia into which Australia could so easily fall.

Another world is possible—a world with more prosperity, shared and sustainable prosperity. Indeed, the only sustainable prosperity is shared prosperity. We know how to obtain it. The economics is clear. The challenge today is not the economics, but our politics.