

Inequality in Society

The Druk Journal Interviews Nobel Laureate Joseph Stiglitz

TDJ: What are the telling signs of inequality in a society?

Professor Stiglitz: We have metrics where we can measure magnitudes of disparities. And we have reference points about what society looks like when it's gone beyond "normal" levels of inequality. You're always going to have some inequality, but when a society goes beyond "normal inequality," something needs to be done. Of course, we pay special attention to some particular forms of inequality, like poverty, and extremes of deprivation.

The question is, inequality in what? In most countries today, inequality in wealth is greater (by most measures) than inequality in income. And inequality in wealth is important particularly because of the potential for political influence.

Again, you might ask, what is the "normal range"? And then you can look at countries like the United States where inequality has gotten excessive, gone well beyond that range.

There are three forms of inequality that I think are most pernicious in a society and when inequality in these arenas is excessive, it is a real symptom that something is not working well:

Inequality in health, including life expectancy. You might say that of all the basic rights, the right to live should be one of the most important. The inequality in wealth and health in the United States is enormous; even in the UK, it's actually very large.

Inequality in opportunity. Some people say it's not so important in outcomes if everybody has equal opportunity, but the truth is that people with higher incomes and wealth have greater opportunities. Thus, inequality in opportunity and inequality in "outcomes" (like health, income, and wealth) are interrelated.

What you really worry about a lot are poverty traps and an inherited plutocracy (a society controlled or ruled by people with a lot of wealth).

We should (and do) care a lot about people at the bottom of the economic ladder who have no chances. And we should worry if people at the top get there by inheritance. That's an example of a lack of equality of opportunity.

The third thing that's important is inequality in access to justice. An example we talk about is African Americans who don't have equal treatment under the law in the US. In practice, Arabs in Israel don't have equal treatment under the law, even though they are full citizens.

TDJ: In Bhutan, at one stage, people came from rural backgrounds – with equal opportunities. With urbanisation, modernisation, and plans to start a new city, is there anything we ought to be more aware of to prevent inequalities?

Professor Stiglitz: One would expect that especially the early stages of a modernisation process might be associated with increasing inequality. Simon Kuznets, a Nobel Prize-winning economist active in the middle of the last century, pointed this out. And then the question is, to what extent can you mitigate it?

I always emphasise how inequality gets created. If you invent a new idea and you do better because of that, that's one thing. But you still may want to have a high tax so that your good luck is shared with everybody.

Corruption in one form or another, is different. Importers who use political connections to get a monopoly to import some goods, for example, and thereby get rich. Or banks that take advantage of people in rural areas, exploiting ignorance and vulnerabilities. Those inequalities are really bad and should be eliminated.

TDJ: Bhutan has been trying to prevent monopolies. Trying to open up and have a free market, we find we're just too small. Even airlines... we have two airlines. Can we make it work for a small country/economy?

Professor Stiglitz: One has to have strong competition policies; but, especially for developing countries, one may have to give your own firms advantages over foreign firms - in other words, some level of protection - but only in certain limited cases and for some limited time, because that protection costs your citizens, costs your economy something. The benefit

of job creation and learning, and increasing your skills, has to be strong enough to offset the costs.

Another issue that you raise is, do you need to regulate airlines or should you just allow free competition?... Most economists today do not believe that free competition in a small country like Bhutan would work for an airline. You could have a cheap airline come in and serve the main city, but not serve the rural areas. And that's important for enhancing geographic equality and broad-based national development.

Analogous issues arise even in a big economy. The general view in the US is that we gave up all the learning of how to do complicated manufacturing to China. Our consumers got lower prices in the short run, but in the long run, we weren't able to make masks, protective gear, or ventilators... so we lost competency. So even an advanced country can lose competency. That's a justification for a small economy to have well-designed protectionist measures. I need to emphasise that they need to be well-designed - because otherwise they can impose large costs on consumers and give rise to monopoly profits and inequality.

TDJ: Another example is telecom. First, we had the government operator, then a private company, and now a debate on bringing in a third company.

Professor Stiglitz: That's when you need regulations. It's so much easier to have market discipline by competition than by having a regulator. But the evidence is that competition, even in a large country like the US, doesn't work in this sector. For example, the US broke up AT&T, which was almost a monopoly, into eight or nine companies. We said this would result in a competitive marketplace. Then what happened? The companies kept merging and merging and now we have two or three and they're terrible. And the price in the US for telecom service is far higher than in India, and there are severe quality problems. So it didn't work.

You can get from experts what the costs of telecom should be for a small economy like Bhutan. The question is, can the companies in Bhutan justify the prices they charge? You can do the calculations and see if it's really justified to be paying for telecom, say, substantially more than what consumers are paying in India.

TDJ: What about nepotism, in a small society, the risks of favouring certain people and companies, etc.?

Professor Stiglitz: That's going to be a really hard problem in a small society because, in such a society, it's natural to favour those one knows well and respects. One aspect of modernisation is a move to a more rules-based system, for instance, both for procurement and contracting, particularly for the government. These systems require transparency and, in general, well-designed auctions – bidding both for the sale of public assets (e.g. water rights) and the procurement of services from the private sector. I should be clear: designing and implementing such systems for a small country is not easy. Let's say you have an auction, bidding for a contract, and three people bid but two of them are new, with no track record. But the government wants to be sure it gets the work done and done in a timely way. So how do you value track records? One way of dealing with it is you make them both post a bond. If you don't fulfill the terms of the contract, as promised, you lose the bond. The problem then is that the bond becomes a barrier to entry. Some firms may not be able to post the bond. So one has to design, or develop, procurement strategies, where with bigger contracts reputation and bonding are more important, and with smaller projects, they play a smaller role.

TDJ: So a lot of responsibility falls on government... and on law?

Professor Stiglitz: And also on transparency and civil society. The government is always going to want to say, we gave the contract to a particular vendor because they are better. We need others, such as the media and civil society, to ascertain whether that is really the case. And it really means that, in the end, one needs to see that the firm awarded a contract does what it has promised to do, and in a timely way.

Bhutan has two problems. One, Bhutan is small, and small economies do not have as much competition. And you're mountainous. The geography is difficult, so many of your projects will be particularly costly. Normally we can look for what is called a yardstick, a comparison, for example, of how much it costs to provide telecommunications. But when you have very remote areas, that can change the calculus.

TDJ: You emphasise good government regulations and need for transparency. A new city is now being developed. How can Bhutan put in place a sound system to avoid inequalities from growing?

Professor Stiglitz: There are three ideas I want to emphasise. First, you want to measure what is going on. Get a flashing light when something isn't going right. There needs to be transparency, of course, so one can actually ascertain what is going on. Are some people making an inordinate amount of money? If so, how do they get their money?

Secondly, you have to have good legal frameworks for every aspect of economic activity, both private and public, including procurement, financial regulation, and competition; and one has to have progressive taxation and expenditure policies. The legal framework itself also needs to enforce transparency so the media can get the information to ascertain what is going on.

The other important idea is that a lot of the money that people make at the top comes from real estate. There should be a high tax on the returns to the ownership of land, including speculative capital gains.

Even in small countries, there are ways to ensure some degree of progressivity, to check excesses of inequality.

TDJ: Bhutan is generally a hierarchical society where new people, or young people, can feel they are at a disadvantage.

Professor Stiglitz: The question is how does that hierarchy exercise its ability to generate advantages for itself? We make a big deal that no one is above the law. The (US) president is not above the law. He pays taxes just like everyone else. The rules-based systems I described earlier are designed to limit the benefits of inherited positions.

TDJ: What can we put in place to avoid inequalities from growing?

Professor Stiglitz: Progressive taxation, and especially taxes to stop the worst ways in which the excesses of inequality grow, including corporate taxes on monopoly profit and taxes on profits from land speculation, and legal frameworks that promote equity.

Research in the last 30 years shows that inequality has a very adverse effect on the economy and on the politics of society... That it actually impairs the functioning of the economy. There are many, many reasons for this; one is that it impairs social cohesion. A well-functioning economy requires trust. When social cohesion is reduced, trust is reduced.

TDJ: Civil Society – why is it important?

Professor Stiglitz: Basically, who is going to monitor whether there's corruption, nepotism, and if inequality is getting too bad? Hopefully, the government itself does this kind of monitoring, but, there's an old expression: Who monitors the monitor? Civil Society and a free and diverse press are among the critical ways that we monitor the government and other institutions in our society. Think of civil society as part of societal checks and balances.

TDJ: Does civil society include media and social media?

Professor Stiglitz: Yes. Investigative reporting is especially important... People who are actively engaged in obtaining and transmitting information on what is going on. And that's a public good, essential to maintaining a well-functioning society. And because it's a public good, it should be publicly supported.