

# **Cooperatives and the Social Economy: Key Elements for Economic Balance**

**Joseph E. Stiglitz**

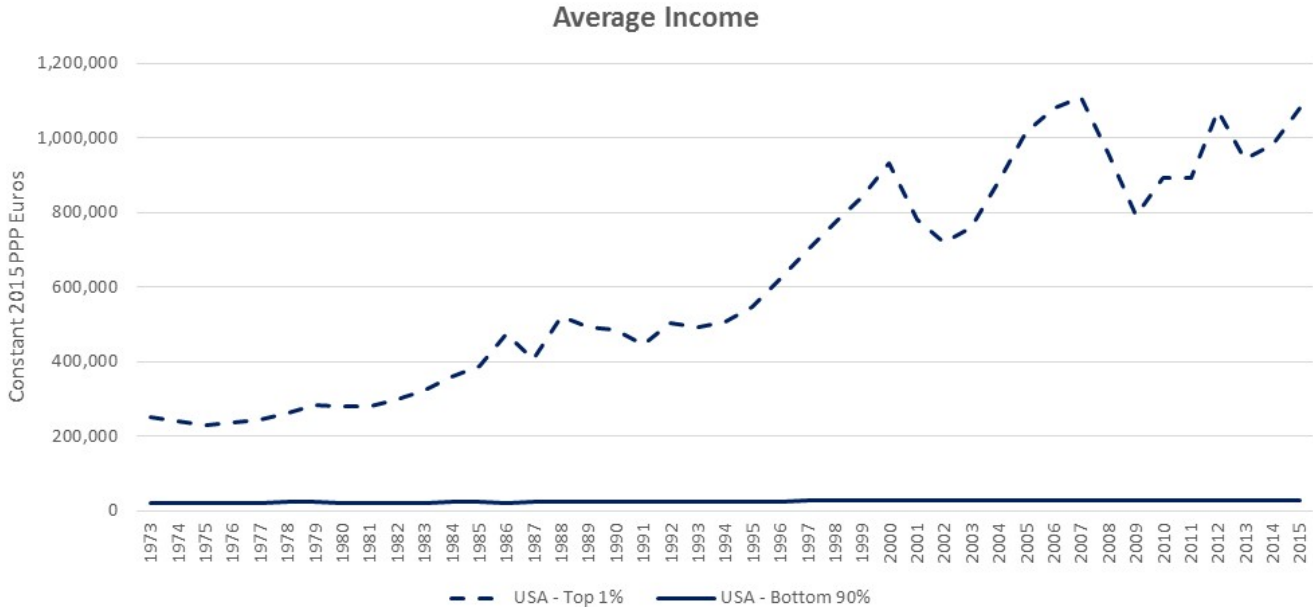
**San Jose, Costa Rica**

**April 26, 2018**

# The “standard” market economy has not been performing well—at least for most citizens

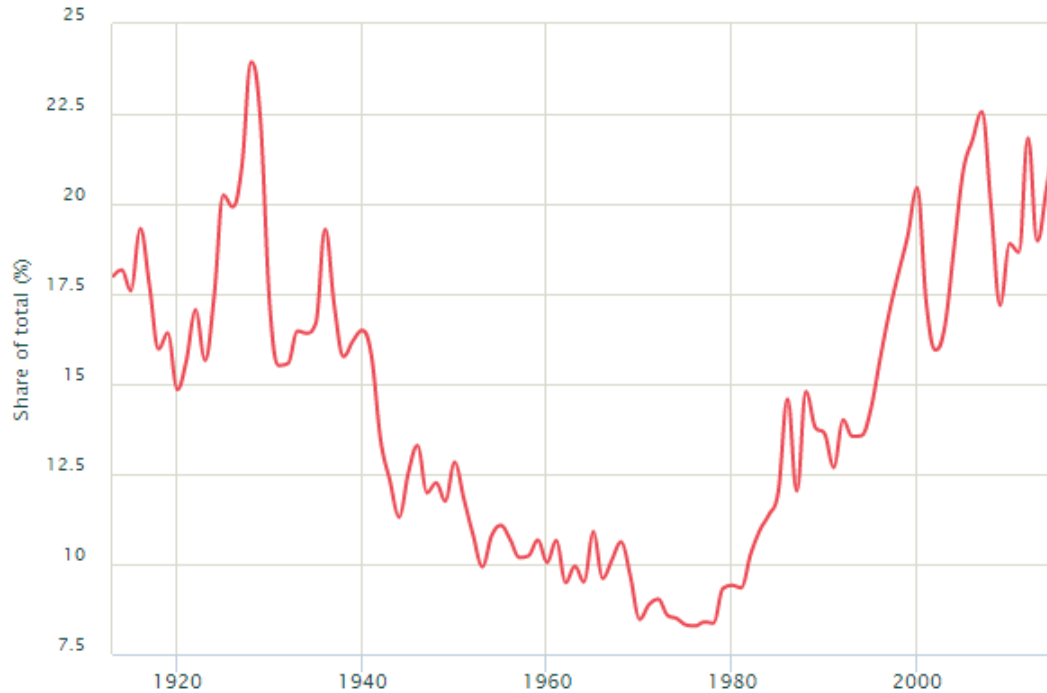
- Growing inequality
- Slowing growth
  - Instability—evidenced by the 2008 crisis
  - With burden falling on ordinary workers
    - With bankers walking off with huge bonuses
    - And no one being held accountable
- Benefits of what growth that has occurred going to those at the top

# US: bottom 90% have seen little increase in income over last third of a century



Source: World Wealth and Income Database

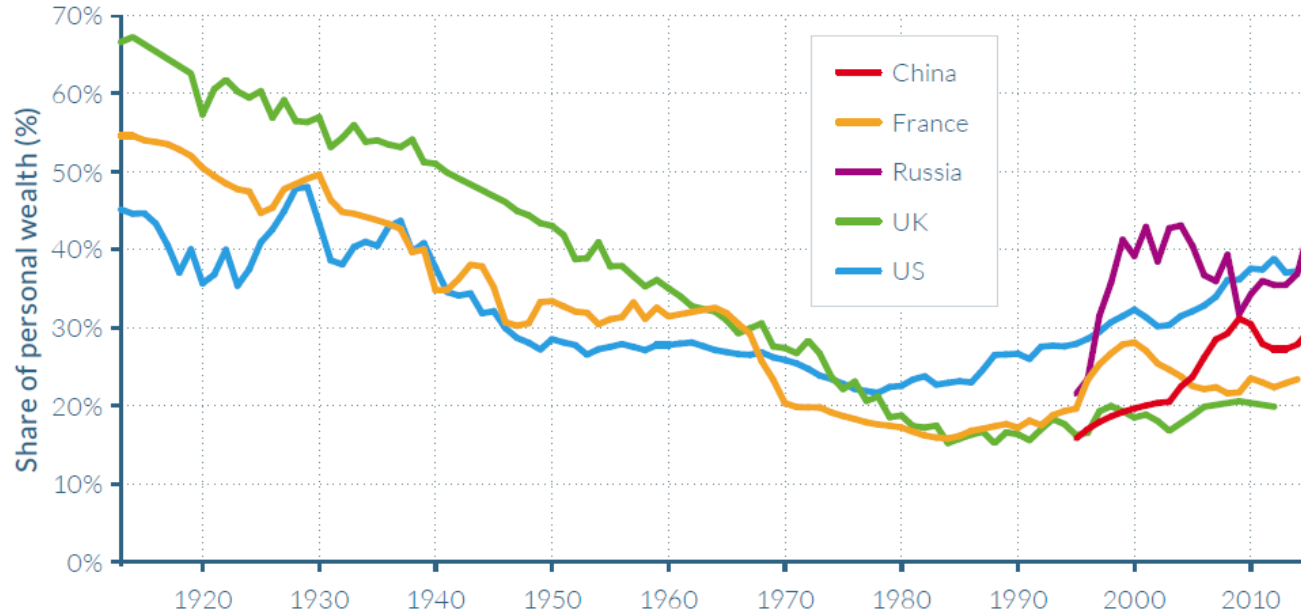
# Top 1% income share in the United States 1913-2015



**Note:** Fiscal income is defined as the sum of all income items reported on income tax returns, before any deduction. It includes labour income, capital income and mixed income. The concept of fiscal income varies with national tax legislations, so in order to make international comparisons it is preferable to use the concept of national income. The population is comprised of individuals over age 20. The base unit is the individual (rather than the household) but resources are split equally within couples.

Source: World Wealth and Income Database.

## Top 1% wealth shares across the world, 1913-2015: the fall and rise of personal wealth inequality

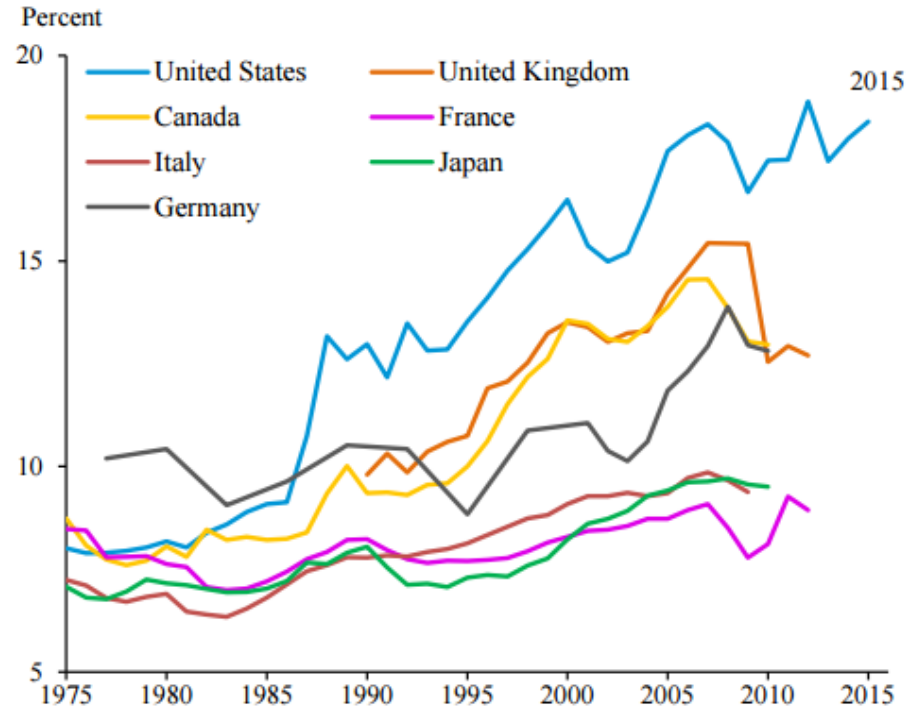


Source: WID.world (2017). See [wir2018.wid.world](http://wir2018.wid.world) for data series and notes.

In 2015, the Top 1% wealth share was 43% in Russia against 22% in 1995.

Source: World Inequality Report 2018.

# Global Inequality: Share of Income Earned by Top 1%, 1975-2015



Source: World Wealth and Income Database.

Chart from: US Economic Report of the President, January 2017.

# Inequality even at the top 0.1%

## CEO compensation has grown faster than the wages of the top 0.1 percent and the stock market

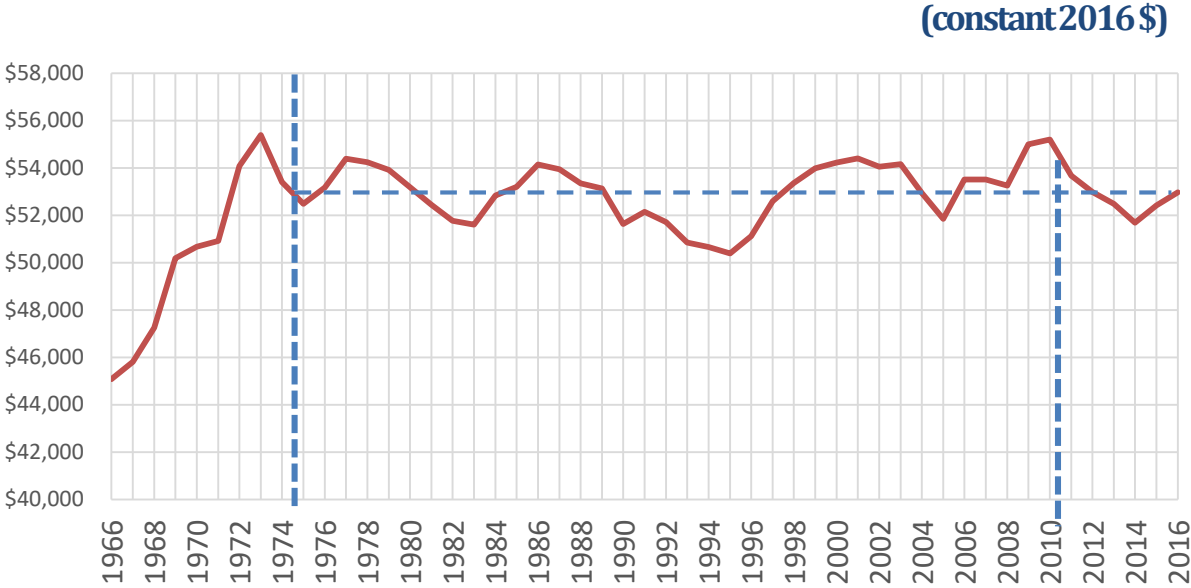
Cumulative percentage change in CEO compensation, wages of the top 0.1 percent, and the S&P 500, 1978–2015



**Notes:** Wage data for the top 0.1 percent is not yet available for 2015.

**Source:** EPI analysis of Compustat Execucomp, Social Security Administration, and Federal Reserve Bank of St. Louis databases.

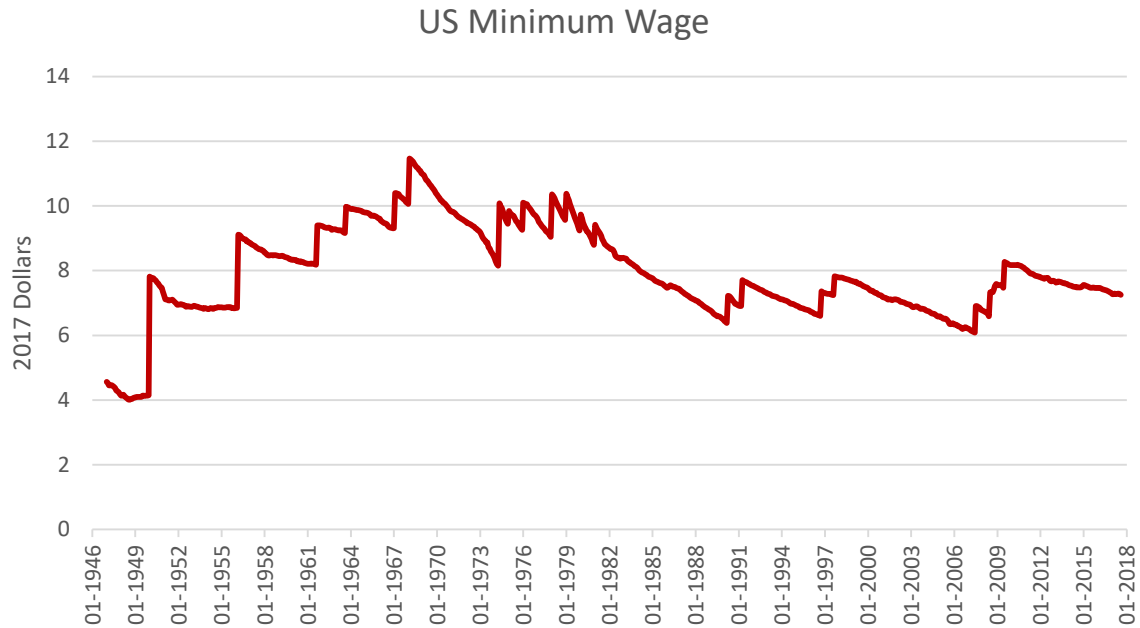
# US: Median income of a full time male worker is at the level that it was more than 4 decades ago



Note: Data is adjusted for the methodological change of 2013.  
Source: U.S. Census Bureau.



# US: Real wages at the bottom are at the level that they were roughly sixty years ago

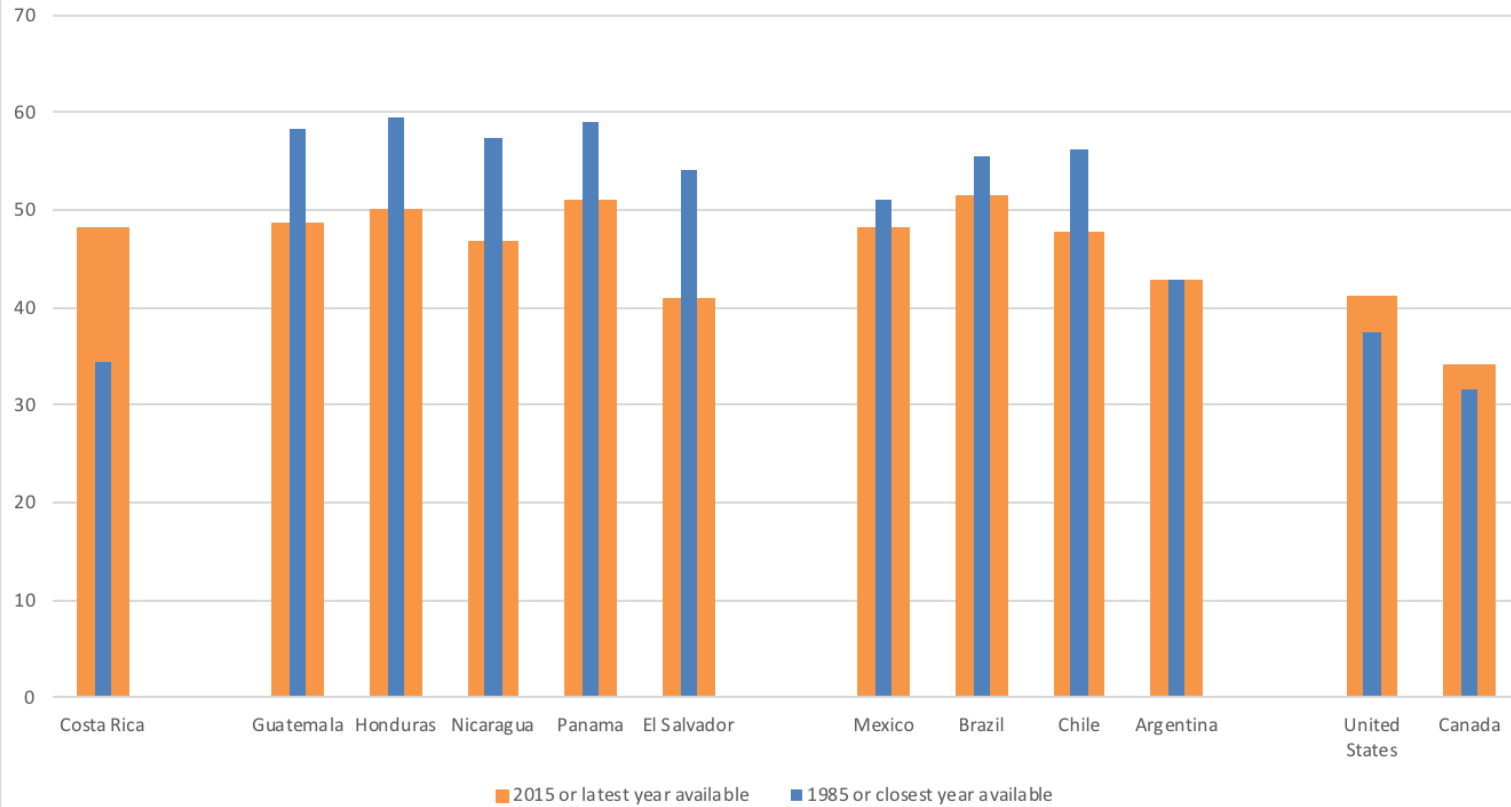


Source: Federal Reserve

# Increase in inequality in most advanced countries

- But wide disparity in GDP: it's not just technology and globalization that is determining GDP
- US has highest level of GDP in 1980's, and largest increase

Gini Index (World Bank estimate)



# Global inequality: Ginis worse in many countries, late 2000s vs. 1980s; but countries with high Ginis are doing better

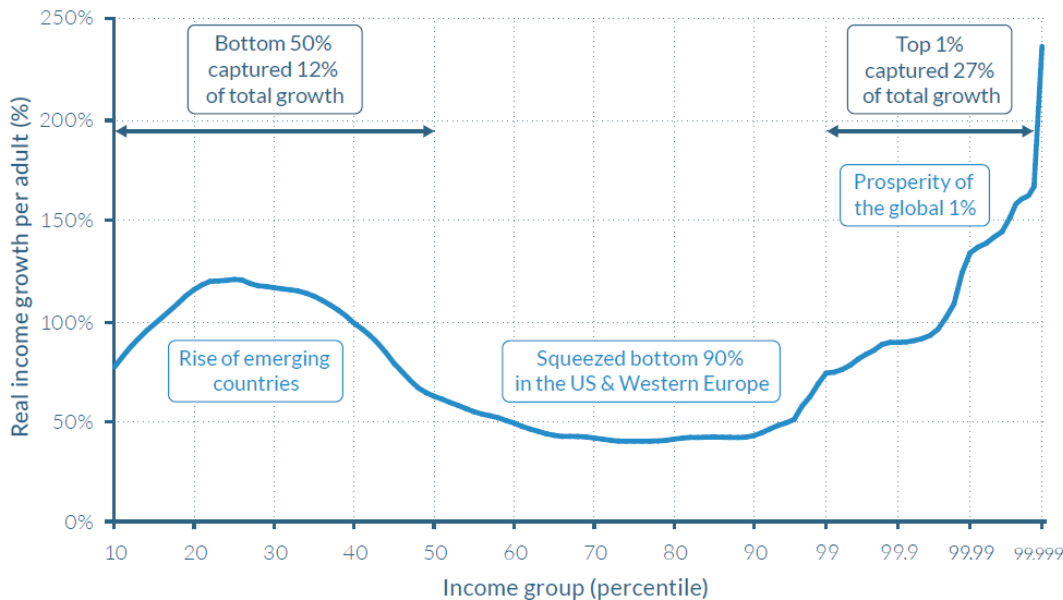
	1985-90	After 2008	Change
Average Gini	36.3	38.8	+2.5
Pop-weighted Gini	33.9	37.3	+3.4
GDP-weighted Gini	32.2	36.4	+4.2
Countries with higher Ginis	32.0	36.2	+4.5
Countries with lower Ginis	42.8	39.5	-3.3

Branko Milanovic

Source: Branko Milanovic, <http://glineq.blogspot.co.ke/2015/02/trends-in-global-income-inequality-and.html>

# Global Income Growth by Percentile

The elephant curve of global inequality and growth, 1980–2016



Source: WID.world (2017). See [wir2018.wid.world](#) for more details.

On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group's income level. The Top 1% group is divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99p99.1 (the poorest 10% among the world's richest 1%), growth was 74% between 1980 and 2016. The Top 1% captured 27% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation.

Source: World Inequality Report 2018, Branko Milanovic.

- Disparities in wealth and health even greater
  - To the point where life expectancy in the US is even in decline
- Inequalities of opportunity
  - The American dream is a myth

**The Walton Family and The Koch Brothers have a net worth of \$212 billion in 2016**

**That's the net worth of 115 million Americans or 35% of the country.**

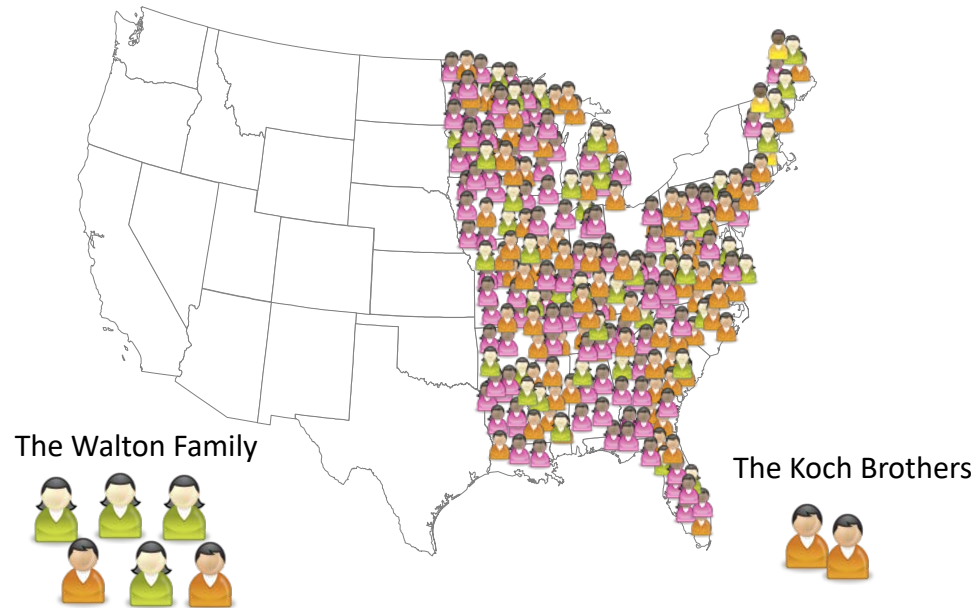
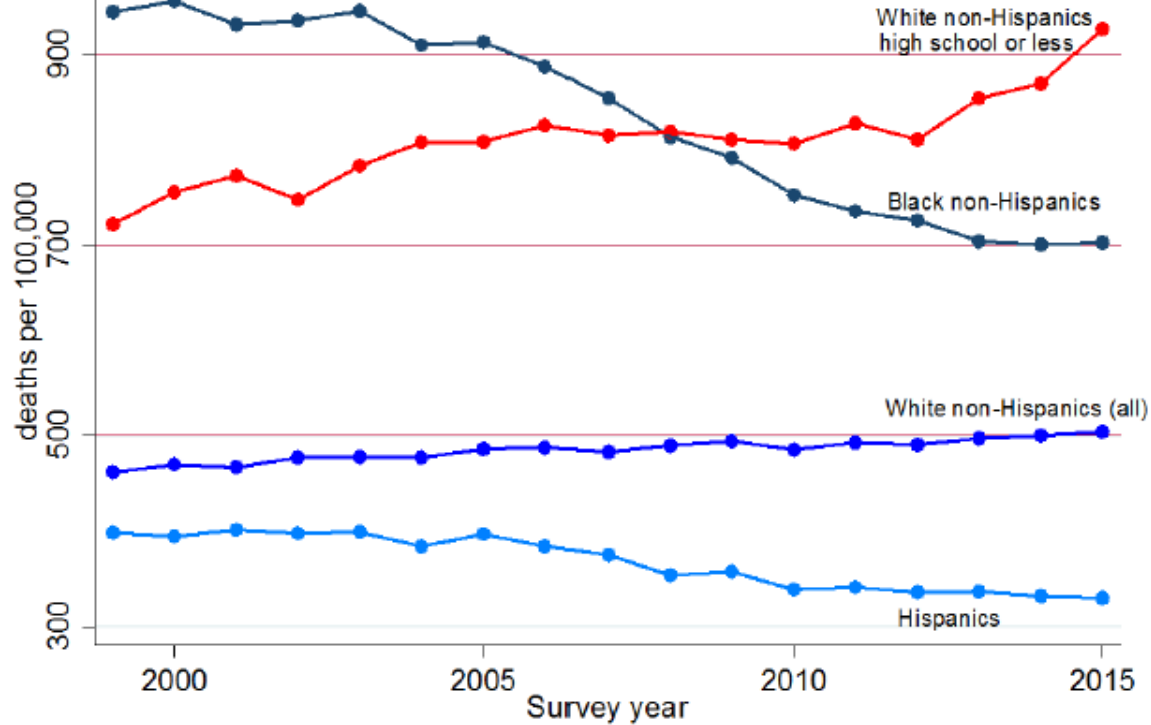


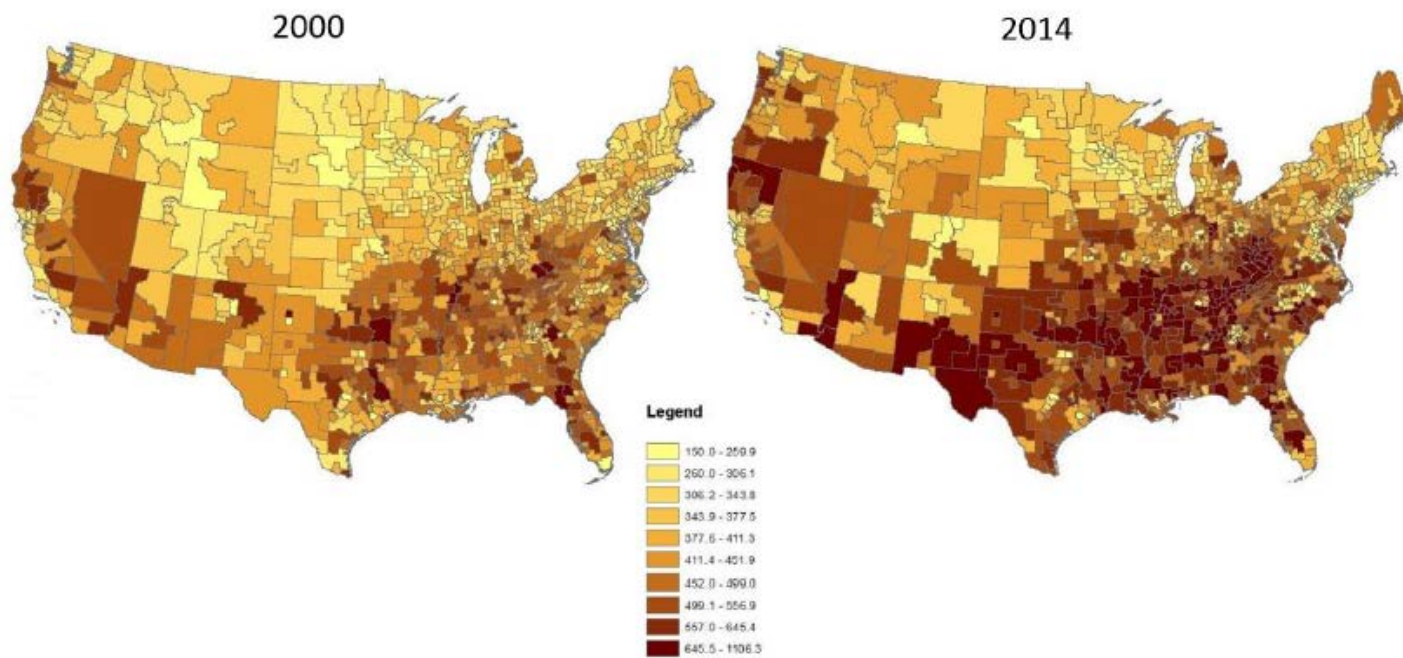
Figure 1.1 All-cause mortality by race and ethnicity, ages 50-54



Source: "Mortality and Morbidity in the 21<sup>st</sup> Century", Anne Case and Angus Deaton, Brookings Papers on Economic Activity, March 17, 2017.

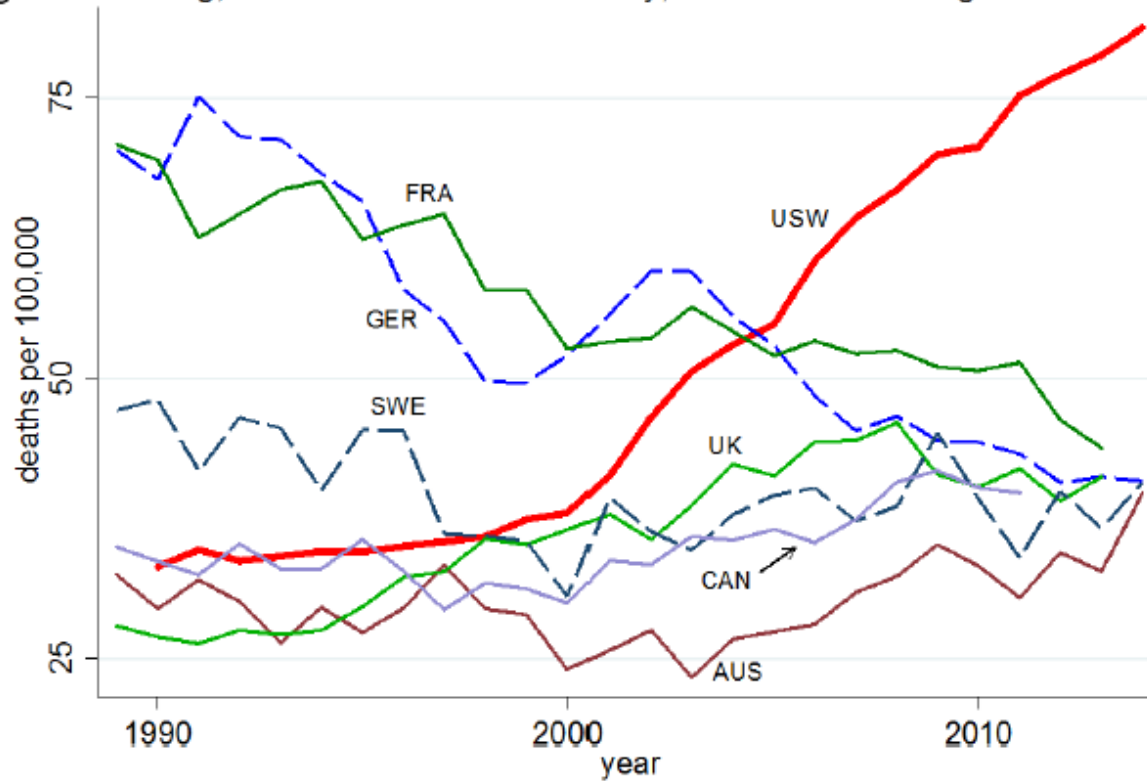


Figure 1.9 All-cause mortality, white non-Hispanics, ages 45-54



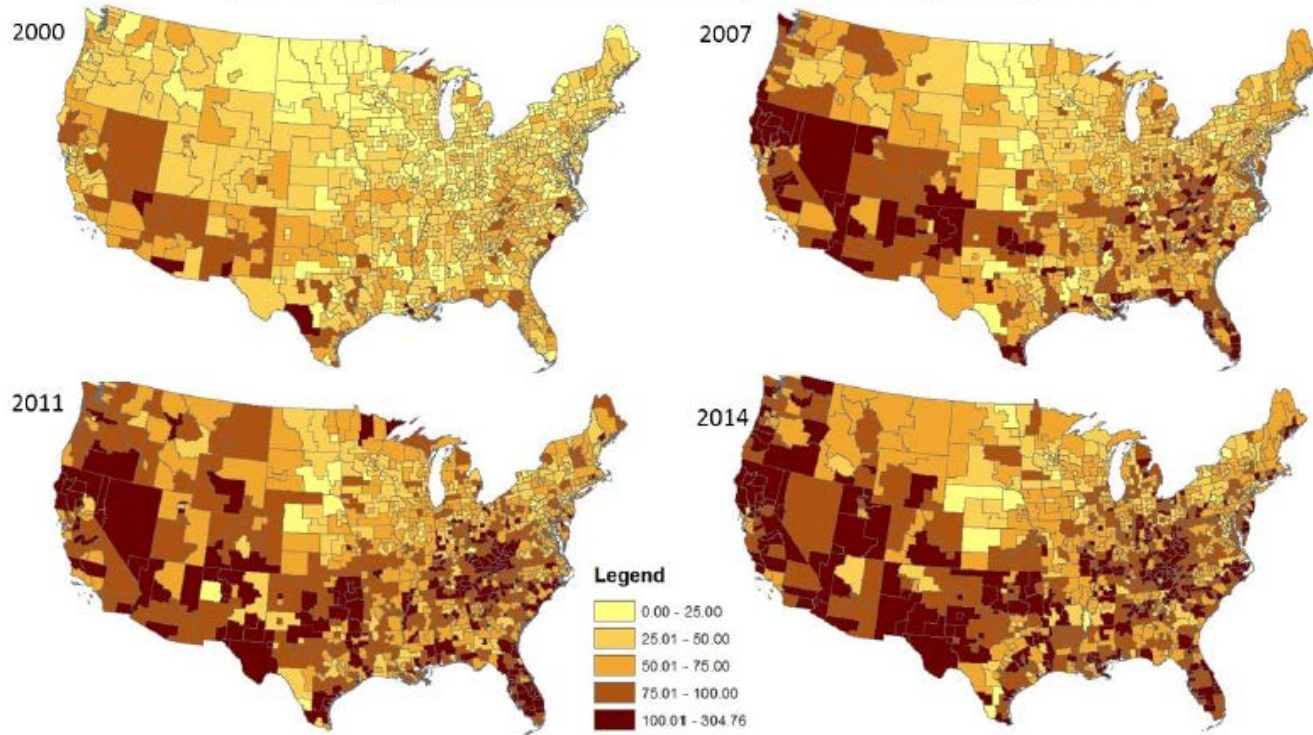
Source: "Mortality and Morbidity in the 21<sup>st</sup> Century", Anne Case and Angus Deaton, Brookings Papers on Economic Activity, March 17, 2017.

Figure 1.5 Drug, alcohol and suicide mortality, men and women ages 50-54



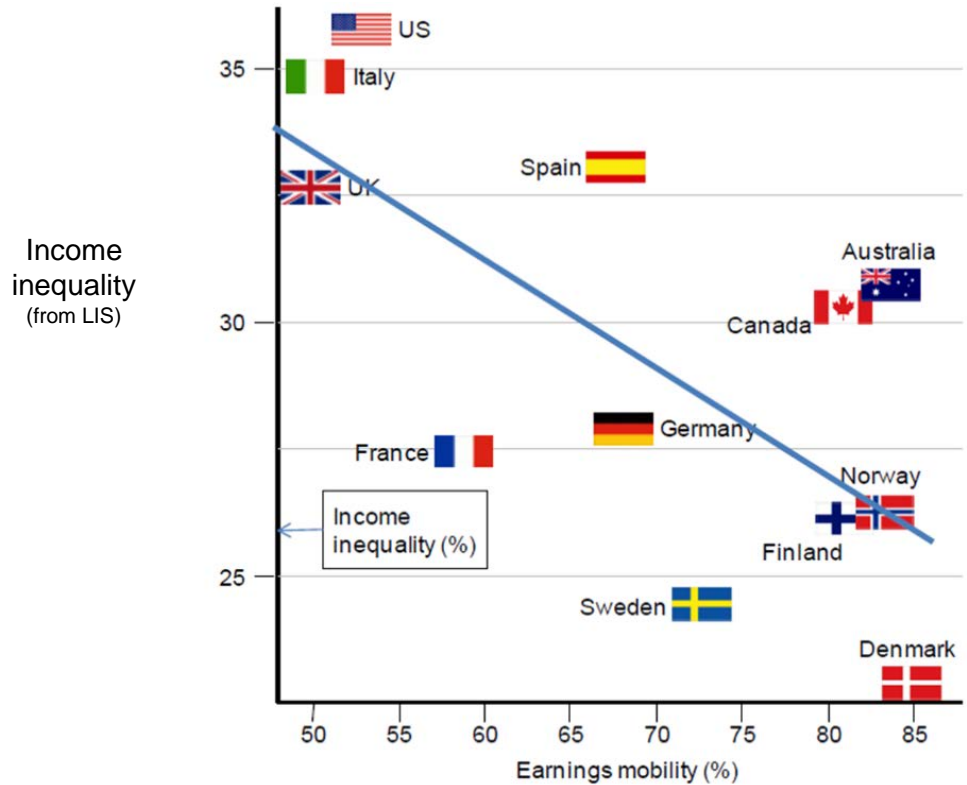
Source: "Mortality and Morbidity in the 21<sup>st</sup> Century", Anne Case and Angus Deaton, Brookings Papers on Economic Activity, March 17, 2017.

Figure 1.6 Drug, alcohol and suicide mortality, white non-Hispanics ages 45-54



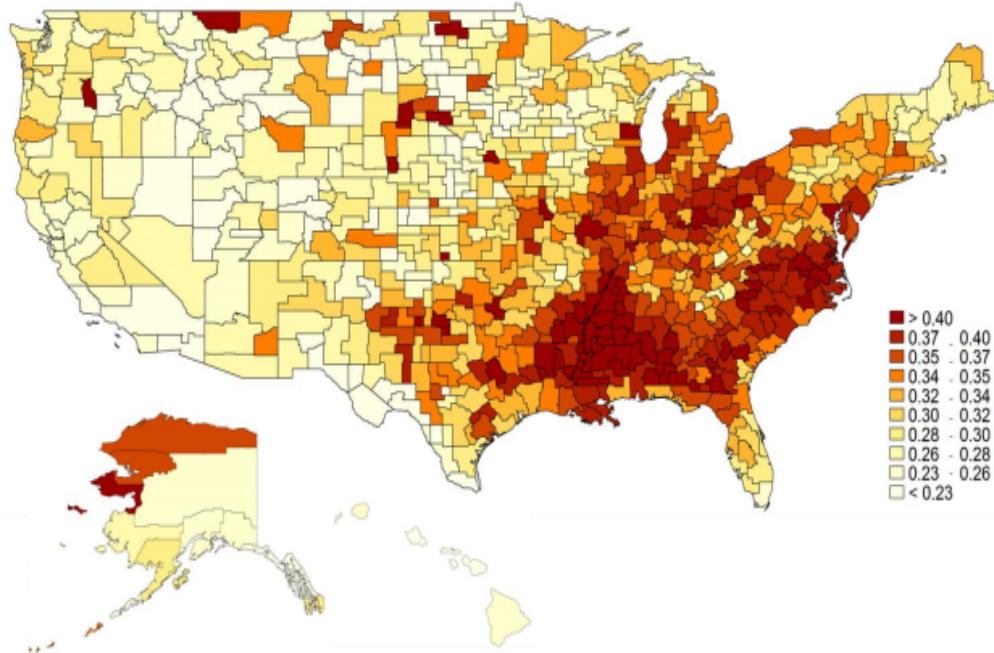
Source: "Mortality and Morbidity in the 21<sup>st</sup> Century", Anne Case and Angus Deaton, Brookings Papers on Economic Activity, March 17, 2017.

# Income inequality and earnings mobility



Source; Janet Gornick; OECD 2008. *Growing Unequal: Income Distribution and Poverty in OECD Countries*. Paris: OECD.

FIGURE 3  
Intergenerational Mobility (Parent-Rank and Child-Rank Income Correlation)



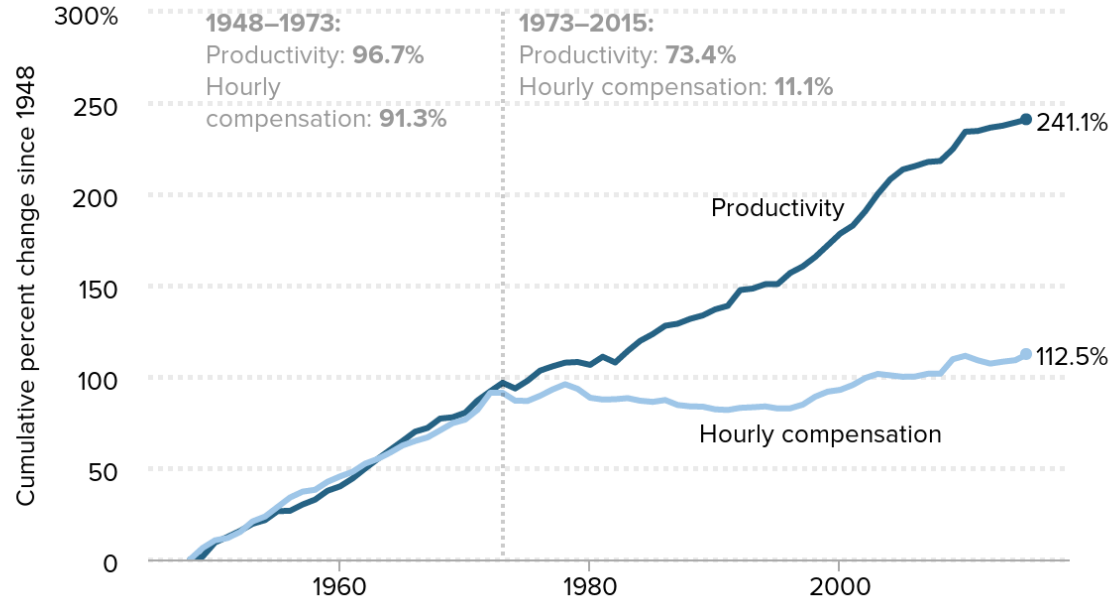
*Notes:* This figure maps CZ coefficients from OLS regressions of adult children's income rank on their parents' income rank, with rank defined by income centiles within each CZ. Darker areas represent lower intergenerational mobility. See Section 2.2 for details on the construction of local IGE measures.

Source: Chetty, Hendren, Kline, and Saez, 2013. "The Economic Impacts of Tax Expenditures." Harvard.

# Labor is getting “cheated”

- Productivity continues to grow
- But compensation does not increase commensurately

# US: Disconnect Between Productivity and a Typical Worker's Compensation, 1948-2015



**Note:** Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

**Source:** EPI analysis of data from the BEA and BLS (see technical appendix of *Understanding the Historic Divergence Between Productivity and a Typical Worker's Pay* for more detailed information)

# Crisis in morals

- Pervasive exploitation, discrimination, behavior showing widespread moral turpitude
  - Most evident in banking
    - Predatory lending, abusive credit card practices
    - Market manipulation
    - Wells Fargo scandals
  - But pervasive in private sector
    - VW emissions scandal
- Research showing that economics/banking *changes* who people are



# Reflection: What went wrong

- Governance: those who made decisions were different from those who experienced consequences of decisions
  - Absence of a good “feedback” system to ascertain effects, correct mistakes
- Interests of those making decisions were often different from those who experienced consequences of decisions
  - Elites making decisions were more concerned about, and more aware of, effects on themselves
  - Ignored impacts on large swaths of country that were not doing well
- Ideology: beliefs in system (confidence) so strong that they didn’t pay much attention to how it was working
  - Part of Cold War—Market fundamentalism
  - Misinterpreted collapse of Soviet Union wrongly as reflecting virtues of market fundamentalism
    - Rather than as a failure of a corrupt and poorly designed economic and social system

# Changes in America after Reagan had made matters worse

- Milton Friedman—Chicago apostle of the free market—warped mid 20<sup>th</sup> century American economic model
- Emphasis on share value maximization further distanced decision making from those affected
  - In practice, turned out to be short run profit maximization—undermining long term investments
  - Parallel short sightedness in public sector, focus just on government's liability, no focus on assets
- Consequence: growth slowed, distribution became more unequal, worker conditions deteriorate, insecurity increased
- American economic model had great influence elsewhere

# Broader policy changes have exacerbated matters

- Reagan argued that lowering taxes on rich and liberalization would incentivize everyone and free up economy—leading to faster growth from which everyone would benefit
- Didn't happen
- Growth slowed
- Inequality increased—only the top did better

# Based on a narrow conception of man, markets, interpersonal relations, and well being

- Individuals are inherently selfish
- Nature of man unaffected by the social context in which he is put
- Markets are an end in themselves
- Just get government out of way and they will function well, delivering more goods
- Materialistic basis of well-being

# Flaws reflected in the teaching of standard economics

- Standard model involves Robinson Crusoe, shipwrecked on an island
  - But an individual making decision alone—no matter how sophisticated—is not an economy: no social relations
- In fact, there is an “economy”, not usually taught, his companion Friday
  - Even though he has more skills and more knowledge he remains subservient
  - Inequitable, unjustified and unjustifiable power relationship
  - And that is true of many of the power relationships in today’s market economy
- Research shows that economists are more like the economic model than others—more selfish, more materialistic—and the more students study economics, the more like the model they become
  - Important lesson: nature of individuals and their relationships with each other can change

# All of these premises have been questioned

- At macro-level: economies that “reformed” based on these misguided “Chicago School” premises did poorly
- Economic theory explained why that was so—inherent limitations in market (monopoly, pollution, exploitation, inefficiencies, instabilities)
- Individuals felt new levels of insecurity and unhappiness
- Further research explained why: individuals are more than just consumption machines, they care about work, their interpersonal relations, their having say in the decisions that affect their lives, about insecurity (behavioral economics)
- Our economy shapes individuals—our market economy makes individuals more selfish, less cooperative, more materialistic
- Our metrics—GDP—don’t reflect well what we care about: they don’t measure well-being
  - Commission on the Measurement of Economic Performance and Social Progress

# There are alternatives

- The social economy, in which cooperatives play a central role
  - Putting people first—their entire well-being, not just their material well being
  - Recognizing that who we are—our preferences, beliefs, attitudes towards others—changes with the economic, political, and social environment in which we are embedded
  - Ownership and participation in decision making can motivate, can incentivize innovation, can change “identity” so that interests of individual and enterprise are more aligned, so behavior is more aligned, reducing “principal agent problems” arising out of misalignment of interests
- Even in the US, the most “capitalistic” of capitalistic societies, there is a rich array of institutional arrangements; some of the most successful institutions are not-for-profit, some are institutions in which workers have considerable say in governance, some are cooperatives

# Beyond standard for profit institutions

- The most successful sector of the US, its higher education institutions, is dominated by not-for-profit institutions, including state institutions
  - The for profit institutions excel only in exploiting others, and using political influence to keep them from being regulated
    - Trump University exemplifies the worst of these institutions
- Historically, some of the most successful firms have had some worker ownership
  - Sears Roebuck—most successful early national retail store
- Today, it is common in our most dynamic firms (in Silicon Valley) to reward and recruit workers by offering them a share of the corporation



# Beyond for profit institutions

- Particularly important in certain areas of innovation
  - Collective commons
  - Open source
    - Wikipedia, Mozilla
    - Today, extends beyond software
- Different forms of cooperation
- Needs encouragement through the law—new forms of licensing (alternative to the patent)

# Cooperatives have been particularly successful in certain parts of the country in certain sectors

- Cooperative housing (the apartment I live in)
- Publishing (my publisher)
- Finance (credit unions—didn't exhibit bad behavior that was common in the for profit sector)
- Agriculture (Land-o-Lakes Butter, largest provider of butter)

Cooperation can center around many areas of mutual interests

- Sales
- Credit
- Research

# Issues are central part of political debate in US

- Concern about short sightedness of firms
- Shareholders with short term holdings have little interest in long term well being of the firm
  - Exploiting misperceptions—actions today which seem to get value up, even if eventually the firm is led to bankruptcy (private equity firms taking on excessive debt)
  - Implication: give more voice to those with long term interests of the firm
    - Workers
    - Long term shareholders (loyalty shares)
    - Community in which the cooperative functions

# Global movement

- Top 300 cooperatives have (2017) turnover of more than \$2 trillion
- Playing prominent role in insurance, agriculture and food industries, in wholesale and retail, and in banking, but playing some role (sometimes far greater than reflected in sales), e.g. in health—Kaiser Permanente (2<sup>nd</sup> largest global collective, and a pivotal advocate for good health in a country with a dysfunctional health care system)
- Often playing a role in part of economy where private sector has failed to enter
  - Rural electric coops, rural credit coops

# Most Americans support more workers' voice in boardroom

- 71 % of Democrats (10% opposed)
- 75% of “democratic leaning” (9% opposed)
- 37% independents (14% opposed)
- 43% Republican leaning (31% opposed)
- 35% Republicans (39% opposed)

# Great expansion of social economy in some parts of the world

- Seoul: as a result of support of mayor, number of social enterprises increased fourfold between 2011 and 2016
  - Almost 18,000 employees
  - High survival rate
  - Better working conditions
- Government policies to encourage
  - Public procurement
  - Promoting cooperation among enterprises
  - Cultivating talent
  - Supporting business expansion

# Short summary of research on comparative performance

- Since results cover a wide range of sectors, operating under various circumstances, in a variety of countries, not a surprise that results are variable
- Most important result: Evidence on overall well-being of participants in cooperatives
- But extending beyond that to the communities in which they live
- Spillover effects
- Cooperatives are more sensitive to their impacts on the communities in which they live

# Better economic performance

- Less short-termism
- Greater productivity
- Higher levels of income equality (wage compression)
- Better performance over business cycle—fewer layoffs



# Challenges

- Adapting to change
  - Especially those requiring changing structure of labor force
- Growing
  - Incorporating new workers into a cooperative—will they have same sense of identity
  - Or is it right to hire additional workers as simply “workers”
  - Alternative model: helping create new cooperative

# Cooperatives and the Social Economy represent a viable alternative

- Need encouragement to be an even more important and more sustainable part of the economic and social institutional eco-system
  - Appropriate legal frameworks
  - Support especially for young and expanding cooperatives
- There are likely to be important spillovers—benefits to the entire society
- The messages of cooperatives is one which is important for everyone to hear
  - Putting people first
  - Voice and Participation Matter
  - GDP is not an end in itself but a means to an end—greater shared and sustainable well-being
- Cooperatives and the social economy are essential if we are to have a more balanced economy and society