



Democracy and Sustainable Human Development

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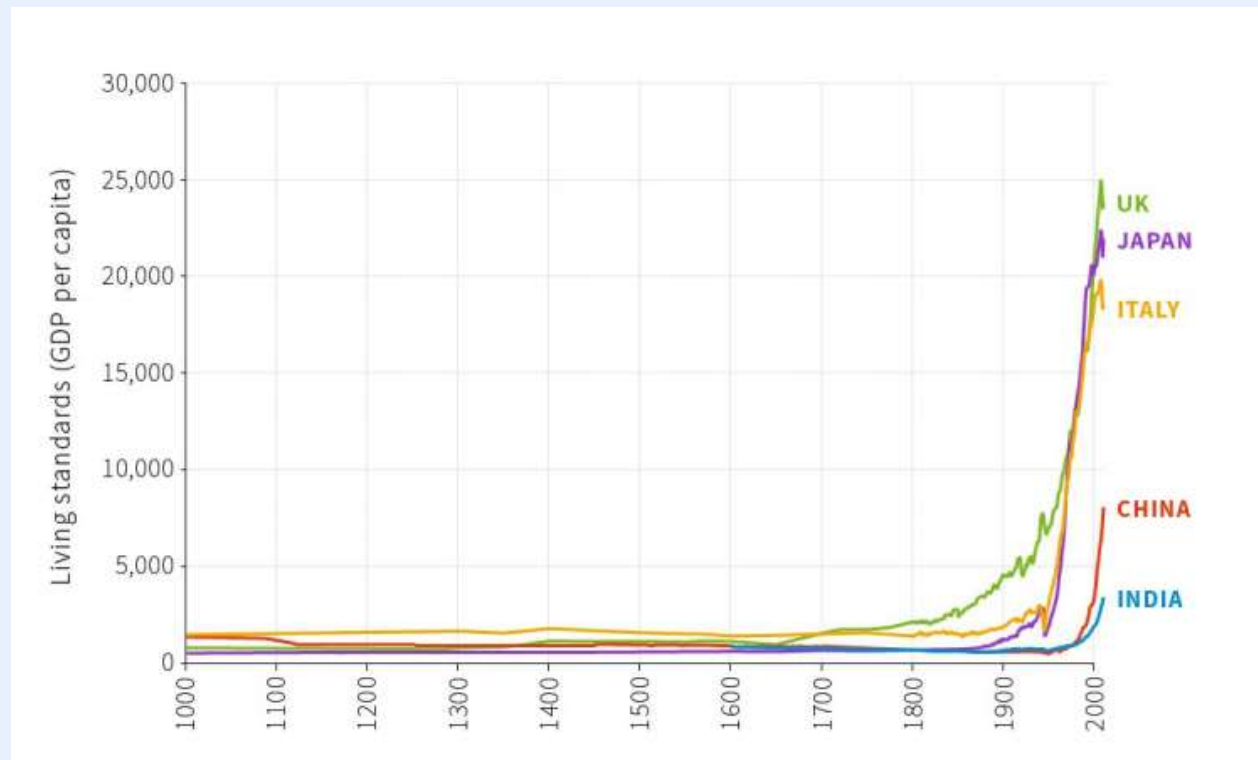
Development is Possible Only When Accompanied by Human Development

- The objective of the economy should be to serve society, not the other way around
- Human development is both a means and an end
 - Enabling individuals to live up to their potential
 - And enabling sustained economic growth
- If Adam Smith were writing his book *The Wealth of Nations* today, it would be called *The Wealth and Wellbeing of People and Nations*, going beyond *wealth* to wellbeing, and going beyond nations to people
 - He couldn't have explained the real source of increases in standard of living in 1776, because it occurred after his life
 - But the changes that occurred in his life, of which he was an important part, set the stage

The Broader Context: Understanding Growth

- For centuries, there was stagnation—little change in standards of living
- Then suddenly, at the end of the 18th century, things changed

Historical Living Standards



Source: INET

Real Wages of London Craftsmen, 1200-2000

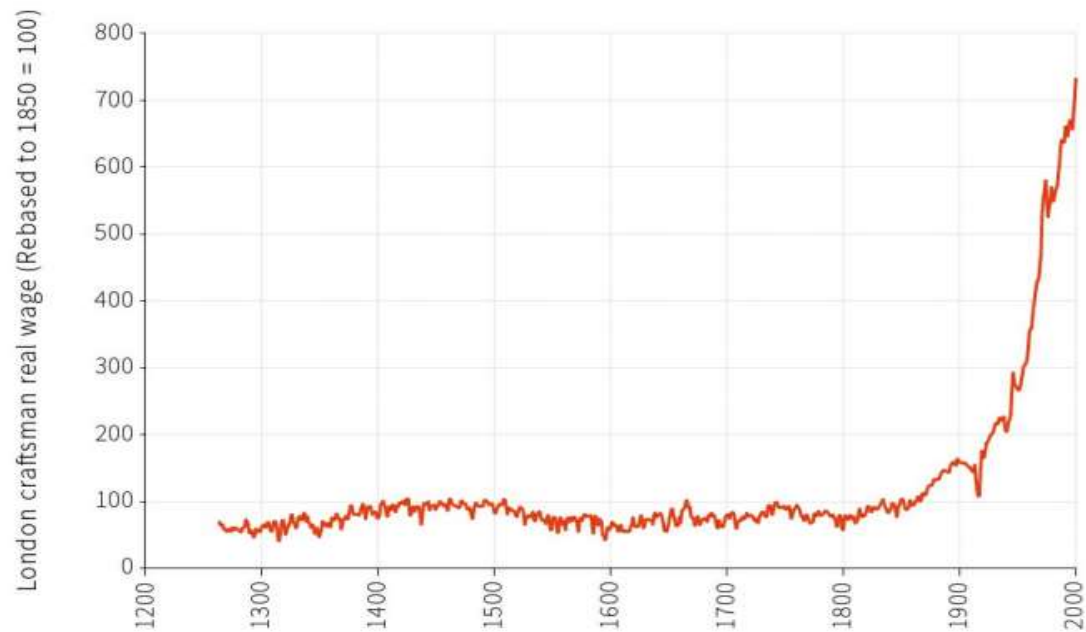


Figure 3. Real wages over seven centuries: craftsman (skilled worker) in London (1264-2001).

Source: INET

Natural Log of GDP Per Capita From 1000 to 1750

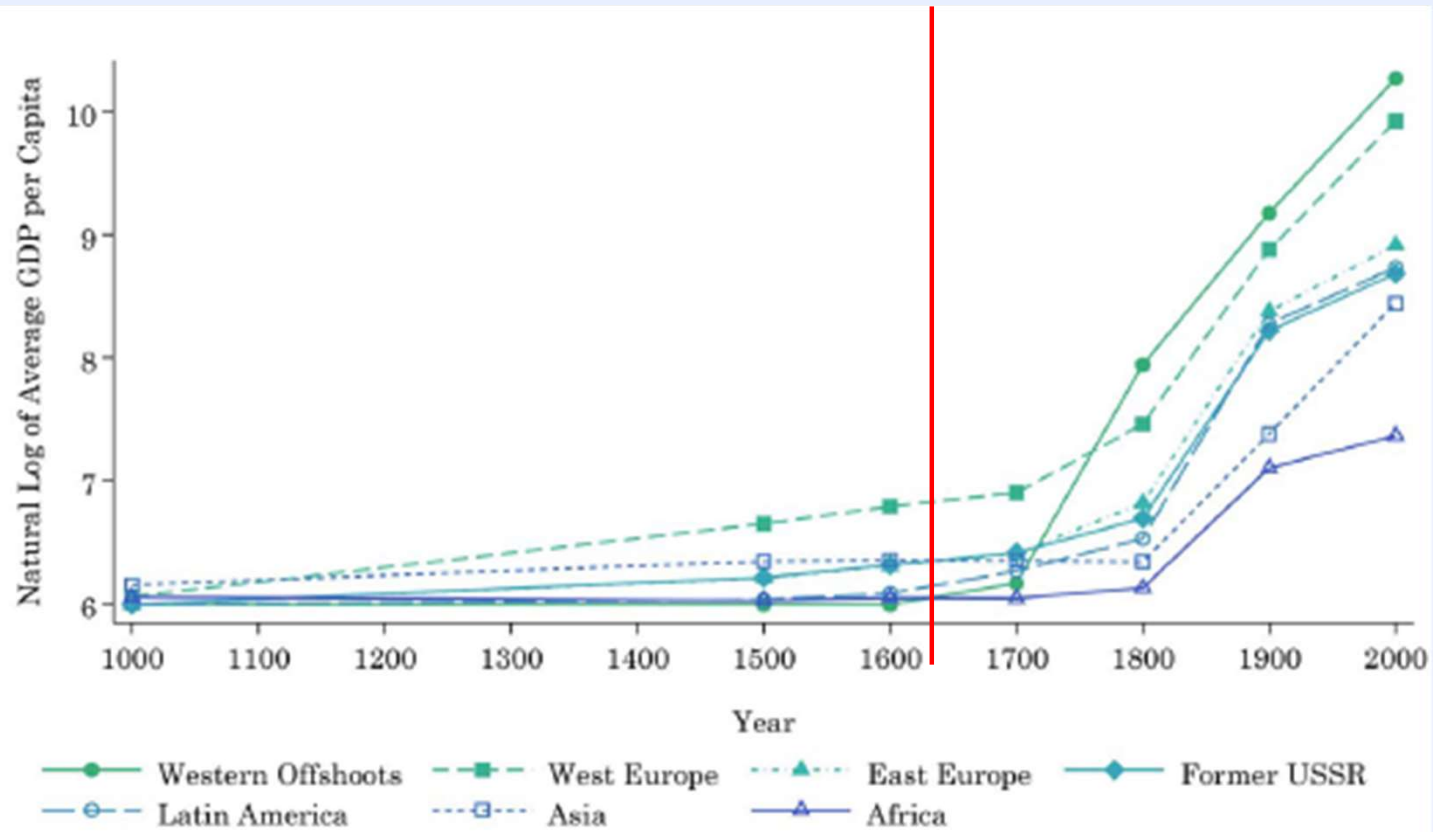
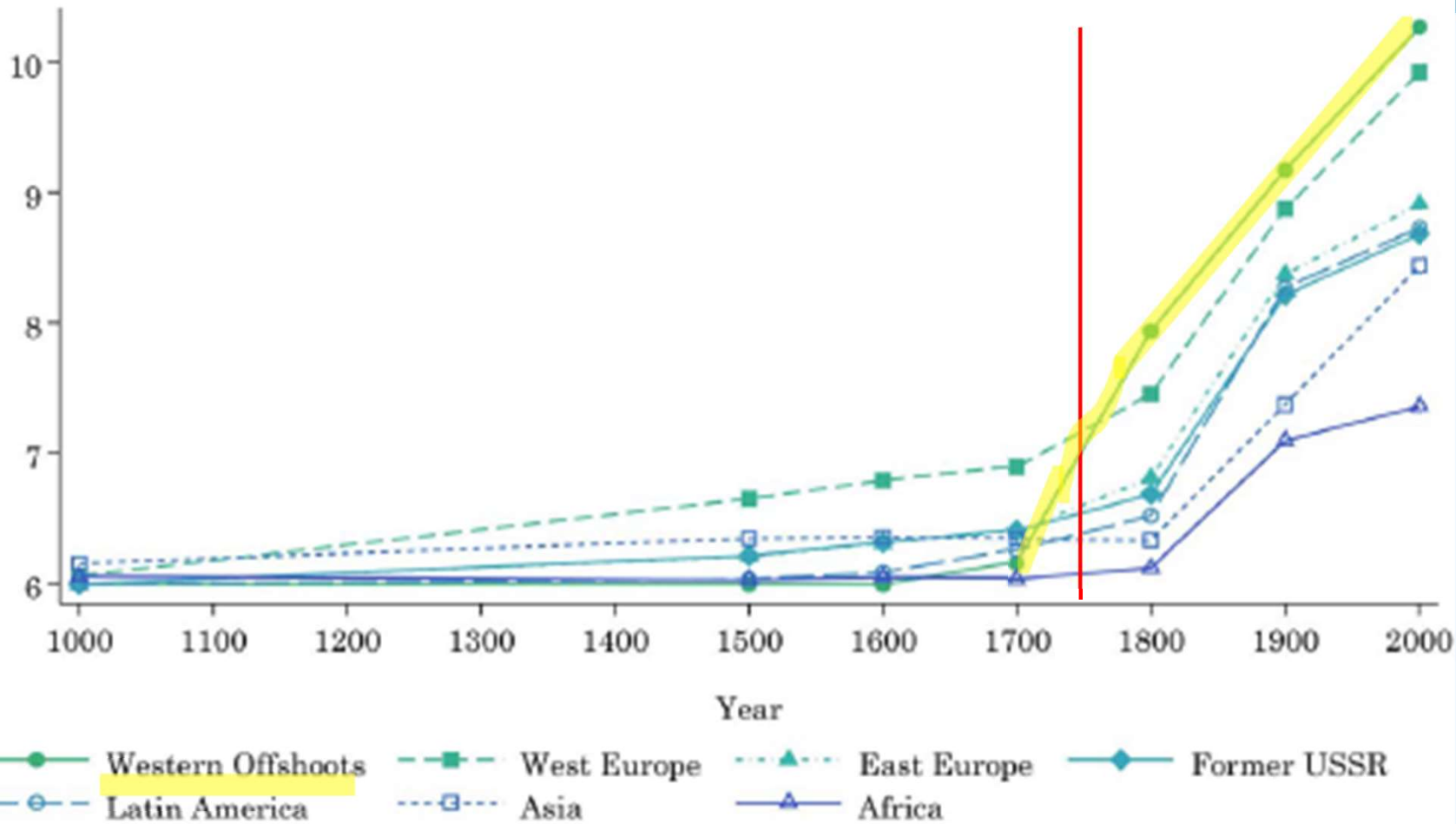
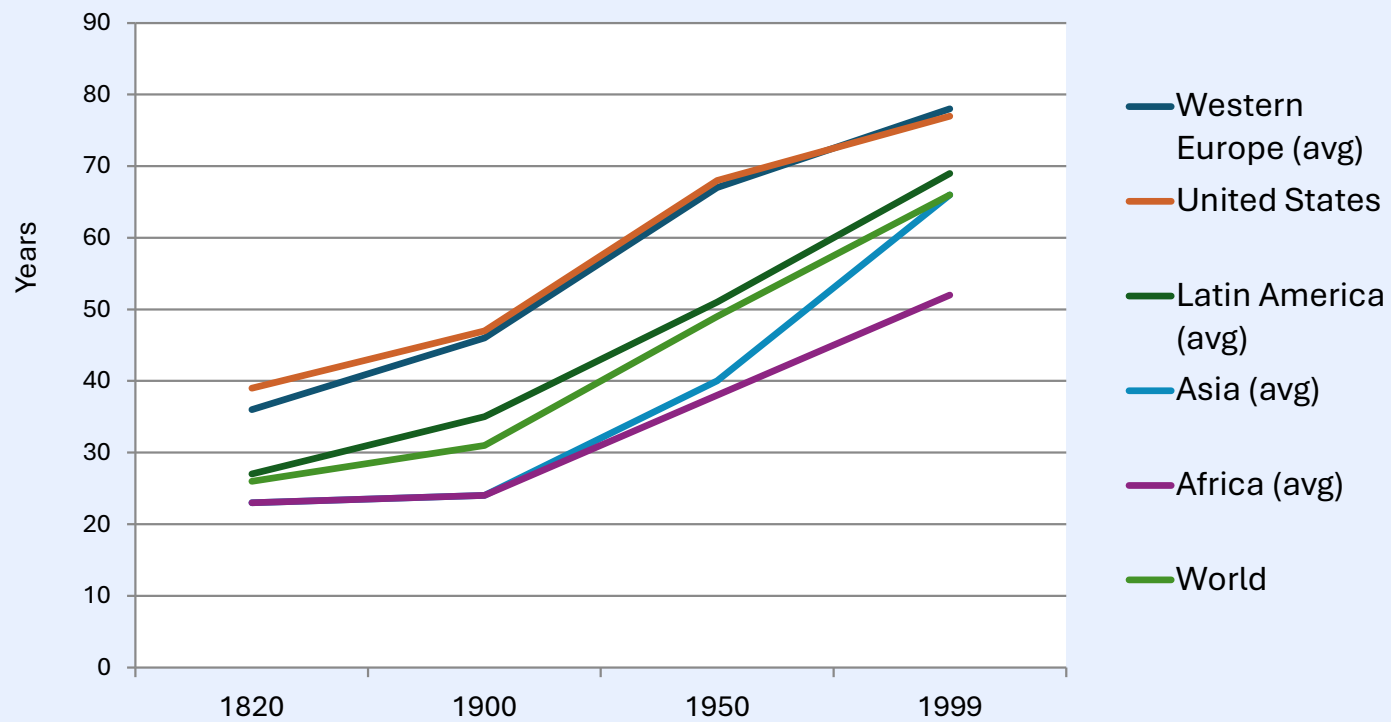


Fig. 1. Relative economic prosperity of different regions of the world from 1000 to 2000 CE.

Natural log of GDP per capita from 1000 to 2000



Improvements in life expectancy since 1820



Data are estimates from A. Maddison, 2001, "The World Economy: A Millennial Perspective," OECD.

Explaining why we have higher standards of living today than 250 years ago and longer life expectancy

- It was human development--the transformation to “learning societies”
- This transformation, the change in mindset associated with the Enlightenment—that occurred around 1800 for Western economies, and more recently for those in Asia, appears to have had a far, far greater impact on human wellbeing than improvements in allocative efficiency or resource accumulation—the things that economists usually focus upon.

J.E. Stiglitz and Bruce Greenwald, *Creating a Learning Society: A New Approach to Growth, Development, and Social Progress*, W.W. Norton, 2015

Enlightenment values, responsible for economic progress, were a change in mindset

- Questioning authority
 - Requiring reassessment of how we know “truth” **and of how we organize society**
- Recognizing that our understanding of the world could increase and **change was possible—the belief in progress**
- **This gave us human agency**

Reasoning

- The **scientific method** provided systemic way of figuring out how to improve productivity
 - Getting more outputs from given input
- **Advances in social organization (rule of law, rethinking property rights, new institutions with new norms)** allowed cooperation among larger numbers of people—increasing the extent of the market and the ability to solve complex problems

That change in mindset was associated with the creation of liberal democracies

Undemocratic governments have succeeded in closing the knowledge gap

- But can they do this on a sustained basis? Can they be knowledge leaders?
- Without checks and balances, there is too great of a chance for the selection of authoritarian leaders, whose irrational whims lead to societal disasters (R. Sah and J. E. Stiglitz, “The Quality of Managers in Centralized Versus Decentralized Organizations,” with R. Sah, *Quarterly Journal of Economics*, 106(1), February 1991, pp. 289-295.)
- Sustained knowledge production requires *openness*, typically associated with significant cross- border flows, both of ideas and of people
 - Open societies question authoritarianism
 - Which is why openness and authoritarianism are antithetical
- **But liberal democracy with good institutions are not enough—underlying their creation and their sustainability must lie individuals committed to them, underlying beliefs and norms**
 - Failure to do so evident in the “deaths of democracy”

Broadening the economic lens

- Standard economics assumes individuals are born with given preferences, which remain unchanged throughout their lives
- In reality, preferences are *endogenous*, shaped by our experiences and by those around us
 - We are social beings
 - Highlighting the importance of *social externalities*
- Two critical aspects of preferences (values)
 - Desire for learning, inquisitiveness
 - Other regarding behavior (opposite of assumption in standard economics of infinite selfishness)

Creating a learning society

- Providing education (“human capital”) to improve skills for all is essential
 - Otherwise individuals will not be able to live up to their potential
- Matter of creating good institutions
 - Otherwise there won’t be quality education
 - Some places have been remarkably more successful than others
 - Forces against change, liberal values
 - Problems of elitism, use of meritocracy for intergenerational transmission of privilege, status
- More than just human capital, good institutions
 - Learning mindsets

Centrality of liberal education

- Education and better understanding of the way our preferences are shaped and our actions are affected by peer pressure can be “freeing” – one of the purposes of a liberal arts education
- Education, and an awareness of our interdependence, can make us more other-regarding
- Empathy can be cultivated (or suppressed)

Freedom, the media, and economic and political power

Perceptions, beliefs, and preferences can be altered

The media (including social media) plays an important role in shaping us

Accordingly, society faces an important set of decisions

- Who gets to control the press—and gets to control, or at least shape, societal meta-narratives, with a loss of *effective freedom* on the part of others
 - Should it be based on wealth? Enabling the wealthy to advance (through economics and politics) their interests
 - Further constraining the “freedom” (choices) of others
- What regulations should be imposed on the media, including the social media, to prevent, or at least reduce, social harms?
 - Restrictions that affect virality of mis- and disinformation
 - Who is to judge? In some cases may be easy
 - Assessing “truth” in certain critical cases is essential for functioning of democracies

Checks and balances

- A democratic society needs to **avoid concentrations of power**
 - Need checks and balances within society, not just within government
 - Excessive concentration of economic power gets translated into a concentration of political power—which leads to rules of the government that reinforce and extend economic inequalities
- There may be multiple societal equilibria—an equalitarian equilibrium and one marked with large societal divides
 - Critical (and difficult) question of how one moves out of the latter towards the former—and how one prevents slipping from the “good” equilibrium into the bad

Academic and press freedom are an essential part of our system of checks and balances

- Which is why authoritarian figures like Trump work so hard to undermine both
- Can't perform that role if they are controlled by an oligarchy
- Academic freedom: society has created as part of its "control" system institutions with individuals devoted to analyzing how and how well the system is performing, and how to design reforms that might enable it to work better
- Press freedom: another critical part of our "control system," investigative reporting and dissemination of information that may be critical of what is occurring
- Need to have individuals able to freely criticize both our system and those who are running it
 - And those criticisms and ideas have to be widely disseminated
 - True press freedom can't exist if the media is "captured" by an oligarchy
 - More democratic media "frees" us from having our beliefs shaped by and for the interests of the wealthy
- These are all ideas associated with the Enlightenment

Other-regarding behavior

- Current economic system shapes individuals—to be greedy, selfish, with limited concerns for others, less empathy and less honest than we might like
 - Cooperatives may help shape individuals to be more cooperative, other-regarding, and to enhance social cohesion
- With such other-regarding behavior and greater social cohesion, need for more obtrusive forms of coercion to deal with negative externalities is reduced
- Subject of research in “modern” behavioral economics—focusing on endogeneity of preferences (Demeritt, Hoff, and Stiglitz, *The Other Invisible Hand: How culture shapes us and the societies we create*, forthcoming)

Current form of capitalism may not even be a sustainable institutional arrangement

- It is not environmentally, socially, politically, or economically sustainable
 - Environmental effects are now evident
- With government oversight, competition won't be sustained
- The divides it gives rise to make it politically unsustainable
- The divides it gives rise to weaken trust, and without trust, a market economy can't function
- It encourages individual traits which also undermine trust, and thus undermine economic sustainability
- **Neoliberal capitalism is a system which may devour itself**
- **It is not a model that developing countries should aspire to**

Constructing a better economic and political system

- There are alternative ways of organizing society that can do a better job of enhancing freedom—progressive capitalism (or a rejuvenated social democracy) (described more fully in my book *People, Power, and Profits*)
- With a **better balance of market and State**, with a rich ecology of institutions (including cooperatives and not-for-profits, and government provision of a “public option”) and forms of collective action (unions, civil society, class action suits)

Greater efficiency and equity

- Doing a better job at reducing negative externalities through **better regulation, investing in public goods, and correcting other “market failures”**
 - Externalities and public goods are especially important in 21st century economy—high level of urbanization, a knowledge economy
 - **Other important “collective” roles**
 - **Limiting a variety of forms of exploitation**
 - **Ensuring competition—making markets work like they’re supposed to**
 - **Providing social insurance**
 - **Better risk management enables more risk taking, more innovation**

—and more democracy, more development,
more human development

- With a stronger system of checks and balances
- Preventing concentration of power
- And giving better voice to all
 - Not just in the political process
 - But in other aspects of the society that affect individuals' well being
- Human centric development is not likely to be sustained without democracy
 - The challenge is to develop the institutions and the underlying mindsets that can sustain democracy