Democracy and Sustainable Human Development

Joseph E. Stiglitz

Introduction: The True Ends and Means of Development

It is a real pleasure to be back in Pamplona. The topic I have been asked to address is democracy and sustainable human development. Genuine development is possible only when accompanied by human development. One foundational way of understanding this relationship is to recognize that the objective of the economy should be to serve society and the individuals within it, not the other way around.

Human development must be viewed as one of the ultimate ends of development, but it is equally a critical means to that end. As a means, human development enables individuals to live up to their potential. In doing so, it drives sustained economic growth.

The question of what gives rise to sustained economic growth has been a central inquiry of economists for centuries. The founding treatise in Anglo-American economics is Adam Smith's *The Wealth of Nations*, written in 1776. Smith discussed at great length what he believed to be the source of national prosperity. If he were writing that book today, I do not think he would call it *The Wealth of Nations*; our primary interest is not in abstract states, but in people. A more accurate modern title would be *The Wealth and Well-Being of People and Nations*—moving beyond simple monetary wealth to well-being, and beyond nations to individuals.

In 1776 Smith could not fully explain the real sources of increases in living standards because those dramatic increases had not yet occurred. The institutional and intellectual shifts of his era merely set the stage for the historic transformation of the next 250 years.

To understand this shift, one must look at world history prior to 1800. For centuries, human living standards experienced near-total stagnation. Historical data on GDP per capita for the UK, Japan, Italy, China, and India show that from the year 1000 up to roughly 1800, living standards remained virtually flat and remarkably similar across the globe. Historical real wage data for London craftsmen over an 800-year span confirms this pattern: real wages saw almost no sustained increase until the mid-19th century, with only temporary spikes caused by catastrophic labor supply shocks like the Black Death.

Then, suddenly, at the end of the 18th century, economic trajectories bent upward into a steep "J-curve". Life expectancy and GDP per capita surged initially in Western economies following the Industrial Revolution, followed by East Asia's rapid convergence starting around 1980.

What explains this dramatic leap? The answer is human development and the transformation into what I call learning societies.[1]

> **Key Driver of Modern Economic Transformation: The Shift to Learning Societies**
>
> • The Eighteenth-Century Enlightenment shifted global paradigms.
>
> • Scientific Method: Fostered technical productivity and understanding of nature.
>
> • Advances in Social Organization: Established rule of law, property rights, and other institutional innovations that facilitated complex human cooperation.
>
> • Result: Creation of Learning Societies driving sustained exponential economic growth.

The Enlightenment and the Science of Social Organization

This historical turning point—the change in mindset associated with the Enlightenment—had a far greater impact on human well-being than allocative efficiency or resource accumulation.[2] Standard economic curricula focus heavily on resource allocation and capital accumulation, but in doing so, economists often focus on what may be second-order effects.[3] The primary driver was a fundamental shift in human mindset.

The Enlightenment began with a willingness to question authority. Before this period, truth was inherited; one did not question past doctrines or the existing organization of society. Kings ruled by divine right simply because that was how things had always been. Once authority was questioned, reason became the primary tool to construct alternatives.

A core realization of the Enlightenment was that our understanding of the world could continuously increase and that positive change was achievable. This introduced the idea of progress and gave humans agency—the belief that human actions could systematically improve the human condition.

---

[1] J. E. Stiglitz and Bruce Greenwald, *Creating a Learning Society: A New Approach to Growth, Development, and Social* Progress, New York: Columbia University Press, 2014. Reader's Edition published 2015.

[2] See also Joel Mokyr, *A Culture of Growth: Origins of the Modern Economy*. Princeton University Press, 2016 and *The Enlightened Economy: An Economic History of Britain 1700-1850*. London Yale University Press,
2009.

[3] *Solow, Robert M. (1957). "Technical change and the aggregate production function". Review of Economics and Statistics. **39** (3): 312–320.*

Human agency manifested in two distinct directions:

1. The Scientific Method: Provided a systematic approach to understanding physical nature and improving technical productivity—getting more output from given inputs.
2. Advances in Social Organization: Introduced new concepts such as the rule of law, modernized property rights, and social institutions with new norms.

Advances in social organization enabled large-scale human cooperation. Modern society relies on collective action. Individually, none of us knows how to manufacture a car or build a smartphone; these products result from complex, large-scale social systems coordinating the efforts of millions across global supply chains.

The complexity of modern economies represents an order-of-magnitude increase in complexity compared to pre-1800 agrarian societies, where families produced their own food and clothing in relative isolation. Modern social structures expanded market boundaries, unlocked increasing returns to scale associated with specialization, and enabled humanity to solve intricate, systemic problems.

Democracy, Knowledge, and the Limits of Authoritarian Success

The intellectual evolution that yielded modern economic systems was intimately connected to the rise of liberal democracies. The exact relationship between democracy and economic growth has long been debated. While some econometric studies suggest democracy directly drives economic growth, empirical history presents a more complex picture.

The most extraordinary economic achievement of the past half-century occurred in China, which lifted roughly 800 million people out of poverty. While China is not a democratic regime, its developmental achievement is undeniable. When China began its post-Cultural Revolution reforms, its per capita income was between $150 and $250. By 2015, China's total GDP measured in purchasing power parity (PPP) surpassed that of the United States (though per capita incomes were a fourth to a fifth that of the US).

> **China's Post-1800 Growth Paradox**
>
> • Poverty Reduction: ~800 Million people lifted out of poverty.
>
> • Initial Conditions: Per Capita Income ~$150 - $250.
>
> • Scale Benchmark: Exceeded U.S. Total GDP (PPP) by 2015.
>
> • Open Question: Can non-democracies sustain long-term knowledge leadership across a broad spectrum of industries?
>
> - Sustained knowledge production requires openness—the free cross-border flow of ideas, information, and people—while open inquiry inherently questions authority, suggesting that authoritarianism and true openness remain in fundamental opposition.

Other East Asian economies, such as South Korea and Taiwan, experienced rapid growth under authoritarian regimes before successfully transitioning into vibrant democracies.

This raises a vital question: Can undemocratic governments sustain long-term knowledge generation across a broad spectrum of industries? Can they be intellectual leaders as well as followers playing "catch-up"?

Without robust checks and balances, authoritarian systems face a high risk of selecting leaders whose irrational whims lead to societal disaster. History offers very few benevolent dictators; autocratic power far more frequently produces catastrophic miscalculations. In hierarchical, centralized organizations, the absence of independent criticism prevents early detection and correction of policy mistakes.[4]

Sustained knowledge production requires openness—the free cross-border flow of ideas, information, and people. However, open inquiry inherently questions authority. For this reason, authoritarianism and true openness remain in fundamental opposition.

Sustaining Institutions Through Endogenous Preferences

In recent years, economic literature—highlighted by Nobel laureates such as Douglass North, Daron Acemoglu, and Simon Johnson—has emphasized that "good institutions" are essential for sustained development. However, economists have frequently failed to explain how good institutions are created or sustained over time—or typically what is even meant by a good sustainable institution.

Consider the contemporary United States. Long presented by international organizations as a model of strong institutional design, its institutions are currently experiencing significant erosion. Norms surrounding the domestic and international rule of law are routinely challenged or bypassed.

Democratic institutions cannot survive on formal legal architecture alone; they require an underlying cultural commitment—a population whose shared beliefs and norms actively support democratic principles. When citizens tolerate violations of legal or democratic norms simply because their personal standard of living feels temporarily unaffected, institutional protections deteriorate.

---

[4] For a theoretical analysis, see R. Sah and J. E. Stiglitz, "The Quality of Managers in Centralized Versus Decentralized Organizations," *Quarterly Journal of Economics*, 106(1), February 1991, pp. 289-295

Standard Economic Assumption	Real-World Observation	Policy Implication
Exogenous Preferences	Preferences are Endogenous	Society must actively foster democratic and learning mindsets.
Individual Selfishness	Humans are Social Beings	Social norms and education shape empathy and civic responsibility.
Static Institutions	Institutions Erode Without Norms and broad societal support—and that requires individuals *today* having appropriate mindsets	Formal checks and balances require public commitment to survive.

Standard economic models assume that individual preferences are exogenous—fixed at birth, immutable throughout life, and unaffected by the preferences and beliefs of others. In reality, preferences are endogenous; they are shaped by experiences, educational environments, and peer dynamics. Human beings are inherently social creatures, subject to powerful social externalities. We are shaped by our society—even as we collectively shape society.

To foster sustainable human development that supports long-term economic performance, we must explicitly cultivate two key mindsets:

- 1. A Desire for Learning and Inquisitiveness: Fostering a critical mindset that drives continuous discovery.
- 2. Other-Regarding Behavior: Moving away from the textbook model of pure, infinite selfishness toward mutual responsibility and civic awareness.

Standard economic models that treat hyper-selfishness as the norm have inadvertently encouraged selfish behavior in society. Education, and an awareness of our interdependence, can make us more other-regarding. Empathy can be cultivated (or suppressed).

More broadly, the current economic system shapes individuals—to be greedy, selfish, with limited concerns for others, less empathetic and less honest than we might like. Other systems (like cooperatives) may help shape individuals to be more cooperative, other-regarding, and to enhance social cohesion. Without such other-regarding behavior and greater social cohesion, there is a need for more obtrusive forms of coercion to deal with negative externalities; indeed, without trust and other-regarding cooperative behavior, it is difficult to sustain a market economy.[5]

Sustainable development requires moving beyond this limited paradigm. But if, as the discussion above suggests, democracy is essential for sustained progress, then we must also cultivate *democratic mindsets*. I'll describe what that entails shortly.

[5] The shaping of preferences, including the encouragement of other-regarding behavior, is the subject of research in "modern" behavioral economics—focusing on endogeneity of preferences (A. Demeritt,K. Hoff, and J. E. Stiglitz, *The Other Invisible Hand: How culture shapes us and the societies we create,* New York: W.W. Norton, forthcoming)

The Creating and Sustenance of Critical Mindsets: Education, Public Information, and Power Dynamics

Education is often analyzed strictly through the lens of human capital—a tool to upgrade human skills to make workers more productive economic inputs. While individual skill development is necessary, the broader function of education is to build learning mindsets.

A true liberal arts education fulfills an Enlightenment function: it enhances individuals' abilities to understand the origins of their beliefs, equips individuals to evaluate inherited beliefs, question authority, and recognize how their actions impact others.

However, independent educational institutions face persistent pressures. Political and ideological interests often attempt to censor curricula—whether suppressing climate science, restricting historical analysis, or undermining university autonomy. Maintaining independent educational space requires continuous protection.

The Role of Media

Beyond formal schooling, public mindsets are heavily shaped by media and digital platforms. In many modern capitalist societies, media ownership is concentrated among wealthy individuals and corporate oligarchies. This concentration results in the creation of a societal meta-narrative that reflects elite interests, constraining public debate and limiting genuine choices.

When media platforms prioritize outrage, polarization, or misinformation for profit or political influence, democracy suffers.

Toward Progressive Capitalism and Rejuvenated Social Democracy

Unchecked neoliberal capitalism contains internal contradictions that threaten its own sustainability. Market forces alone do not address major environmental crises, such as climate change, nor do they prevent market power from concentrating into monopolies. Monopolies and the exploitation to which they give rise result in high inequality. High inequality erodes the foundational element of any market economy: trust.

When trust breaks down, economic interactions require costly legal intervention, transactional friction increases, and cooperative economic activities collapse.

Economic inequality, too, inevitably translates into political inequality, and political inequality results in rules that favor the rich, sustaining the high levels of economic inequality. But these processes undermine the legitimacy of the social, economic, and political order, further undermining trust and social cooperation. Societies become polarized.

There may be multiple societal equilibria—an equalitarian equilibrium and one marked with large societal divides.[6]

To achieve sustainable, human-centric development, we must transition toward an alternative model: Progressive Capitalism, or a rejuvenated Social Democracy.

This framework restores balance between the market, the state, and civil society through key structural pillars:

1. A Balanced Institutional Ecology: Encouraging diverse institutional forms, including worker cooperatives (such as the Mondragon model in Spain), non-profits, unions, and direct public provision.
2. Public Investment in Knowledge: Recognizing basic research and educational infrastructure as fundamental public goods essential for innovation.
3. Regulation of Externalities and Market Power: Restricting pollution, protecting climate stability, curbing monopoly power, and preventing the exploitation of consumer vulnerabilities.
4. Robust Social Insurance: Providing comprehensive social safety nets that enable individuals to take productive economic risks.
5. Egalitarian Fiscal Policy: Implementing fair tax structures—such as effective progressive wealth and income taxes—to prevent extreme inequality from capturing political institutions.

Such a framework would do a better job to reduce negative externalities through better regulation, investing in public goods, and correcting other "market failures" than those prevailing today; these are particularly important since externalities and public goods are especially important in a 21st century economy, with high levels of urbanization and as we have moved into a knowledge economy.

Underlying this agenda, including the establishment of a healthy democratic public sphere, is limiting the accretion of power and its abuse. As we have already noted, central in that agenda is ensuring that there is not excessive wealth and income inequality. But there are three further elements I want to emphasize.

• Diverse Media Ownership: Robust support for public options and non-profit media to balance elite-controlled outlets. 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 is a critical societal decision. Should it be based on wealth, enabling the wealthy to advance (through economics and politics) their interests, further constraining the "freedom" (choices) of others?[7]

---

[6] There is a 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.

[7] There is a related question: What regulations should be imposed on the media, including the social media, to prevent, or at least reduce, social harms? What restrictions that affect virality of mis- and disinformation should be imposed?

• Effective Checks and Balances: checks and balances not only within government but broader societal balances that prevent extreme concentrations of economic power from translating directly into political and informational dominance.

• Academic and press freedom. These freedoms function as essential mechanisms of societal self-correction and an essential part of our system of checks and balances. Academics provide independent evaluation of complex societal systems, which requires economic security—such as the tenure system—to ensure researchers can speak truth to power without fear of retaliation.

Similarly, an independent press exposes corruption and ensures public accountability. By balancing economic power, protecting independent truth-seeking institutions, and actively cultivating mindsets centered on inquiry and mutual responsibility, societies can build a truly sustainable, democratic, and human-centered future.

Society has created these "freedoms" as part of its "control" system: Academic 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 with its investigative reporting and dissemination of information that may be critical of what is occurring. We 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. A more democratic media "frees" us from having our beliefs shaped by and for the interests of the wealthy.

It is precisely because academic and press freedom are such an important part of our system of checks and balances those authoritarian figures like Trump work so hard to undermine both.

Current Form of Capitalism Is not Sustainable Institutional Arrangement: There is an alternative

It is not environmentally, socially, politically, or economically sustainable. The environmental effects are now evident; and the increasing inequality and societal polarization suggests that the system is not politically and socially sustainable. Without government oversight, competition won't be sustained. The divides it gives rise to weaken trust, and without trust, a market economy can't function. As we suggested, it encourages individual traits that also undermine trust and thus undermine economic sustainability. In short, neoliberal capitalism is a system that may devour itself. It is not a model that developing countries should aspire to.

There are alternative ways to organize society that can do a better job of enhancing freedom—what I have described as progressive capitalism or a rejuvenated social democracy.[8] This system

[8] Described more fully in my books *People, Power, and Profits: Progressive Capitalism for an Age of Discontent, New York: W.W. Norton, 2019* and *The Road to Freedom: Economics and the Good Society,* New York: W.W. Norton, 2024.

will be marked by greater efficiency and equity, and most importantly, by more democracy, more development, and 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' wellbeing.

Human-centric development is not likely to be sustained without democracy. Today, the challenge is to develop the institutions and the underlying mindsets that can sustain democracy.

Questions & Answers

Q1: How do we actually create good institutions without falling into a circular argument? If we need good institutions to preserve democracy, but need democracy to create good institutions, how do we start?

Prof. Joseph Stiglitz: This was a central question during my time at the World Bank. Institutional "transplants"—taking an institution that works in one country and imposing it on another—rarely work. What makes institutions function are the underlying societal mindsets.

The early economic literature on institutions often missed this foundational driver. Changing mindsets is typically a gradual historical process, but deliberate actions can accelerate it. Building a democratic mindset requires demonstrating why shared governance and collective decision-making produce superior outcomes.

Shared governance is not just a moral ideal; it is an information-sharing mechanism. Because individuals have limited cognitive capacity and incomplete information, bringing diverse perspectives together leads to better public policy than any single autocratic leader could devise.

Education is central both to the creation of good institutions and to the creation of the mindsets that enable them to function well and to be sustained.

Q2: How do we scale these principles to the global level, particularly when many nations are moving away from democratic norms?

Prof. Joseph Stiglitz: The same principles apply internationally. We must foster democratic cooperation among nations rather than allowing powerful states to impose their will or capture disproportionate shares of global value chains. Unilateralism—the kinds of actions that Trump has undertaken--undermines the international rule of law.

When international relations descend into the "rule of the jungle," the resulting instability highlights the practical value of legal frameworks and cooperative governance.

Tackling global challenges like climate change requires genuine international collaboration.

When democratic nations implement global regulations—such as environmental or trade rules—they must engage in meaningful, multi-lateral dialogue with developing economies rather than issuing top-down mandates. Democracy is not merely a quadrennial electoral event; it is a continuous commitment to persuasion, cooperation, and shared decision-making at every level.

Q3: In standard economics, equity and efficiency are treated as trade-offs. How do endogenous and other-regarding preferences change that view?

Prof. Joseph Stiglitz: Mainstream economics has focused excessively on trade-offs, assuming economies are always operating at the efficiency frontier where gaining more equality means sacrificing output. In reality, many economies operate well below that frontier due to pervasive market failures.

Extreme inequality actively harms economic performance. Curbing monopoly power reduces inequality while simultaneously improving overall economic efficiency. Giving workers greater voice in the workplace can enhance productivity while promoting egalitarian outcomes.

Consider fiscal policy debates, such as proposed wealth taxes on the ultra-rich. Elite narratives often claim that marginal tax increases will devastate economic performance. Yet, reasonable investment returns comfortably exceed proposed tax rates. The assertion that progressive taxation inherently destroys growth is a narrative constructed to protect concentrated wealth rather than one based on economic reality. By addressing market failures and correcting excessive concentration, societies can achieve higher efficiency and greater equity at the same time.