Nobel Laureate Joseph Stiglitz on "Rewriting the Rules of the American Economy"

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JOSEPH STIGLITZ
Nobel Prize-winning economist, Columbia University professor and chief economist for the Roosevelt Institute. His new book is called Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity.

As presidential candidates spar over economic policies and Congress debates the TPP, one of the nation's leading economists is calling for a comprehensive overhaul of the U.S. economy. Nobel Prize-winning economist and Columbia University professor Joseph Stiglitz has just published a new book called "Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity."

TRANSCRIPT

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AMY GOODMAN: On Saturday, leading Democratic presidential contenders addressed the Iowa Democratic Party gathering known as the Jefferson-Jackson Dinner. The high-profile party dinner has been a defining moment on the campaign calendar since '75. This is former Secretary of State Hillary Clinton.

> **HILLARY CLINTON:** There is something wrong when the top 25 hedge fund managers earn more in a year than all the kindergarten teachers in America combined, or when top CEOs make 300 times what a typical worker does, or when corporate profits soar but employees don't share in those profits, when it's easy for a big corporation to get a tax break, but it's still too hard for a small business to get a loan.

AMY GOODMAN: Hillary Clinton. Well, Vermont Senator Bernie Sanders also spoke in Iowa over the weekend, calling for a raise in the minimum wage.

> **SEN. BERNIE SANDERS:** When you see the middle class of this country disappearing, and when you see people you know working two or three jobs trying to cobble together some income and some healthcare, you don't just shrug your shoulders and say, "That's the way it is." You fight to raise the minimum wage to a living wage.

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AMY GOODMAN: Vermont Senator Bernie Sanders, speaking at the Jefferson-Jackson Dinner in Iowa, which has become the bellwether of Democratic support.

Well, as presidential candidates spar over economic policies, one of the nation's leading economists is calling for a comprehensive overhaul of the U.S. economy. Nobel Prize-winning economist, Columbia university professor Joseph Stiglitz has just published a new book; it's called *Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity*.

Joseph Stiglitz, it's great to have you with us.

JOSEPH STIGLITZ: Nice to be here again.

AMY GOODMAN: Welcome to *Democracy Now!* Talk about these candidates and what they're saying and what they actually do, what they support.

JOSEPH STIGLITZ: Well, I think we're in a new moment in America, because I think we've had a third of a century of a—you might call, an experiment, a grand experiment, where, beginning with Reagan, we said, "Let's lower the tax rates on the top. Let's rip away the regulations. We're going to free up the American economy. We're going to incentivize it. The result will be the economy will grow so much—yes, the top will get a larger share, but everybody is going to get a bigger piece, and so everybody is going to be better off." Well, we've had a third of a century of this experiment, and it has failed. It has failed miserably. The fact is, the bottom 90 percent have seen their incomes stagnate. Median income today is as low as it was a quarter-century ago. Talking about the minimum wage, minimum wage is the level, adjusted for inflation, it was 45, 50 years ago. You know, if an economy can't deliver for most of its citizens, it's a failed economy. What's so striking is, we've had technological change, we've had globalization—all the things that were supposed the economy perform better—and in fact it's performed worse.

So, what the two candidates are saying is really echoing, I think, the basic message of this book, which is, something is wrong with the rules of the economy. It's not the American workers. They're working hard. Productivity has continued to grow. What's striking is how that pie is being shared, not fairly. And in fact, the distortions in the economy, that Hillary was talking about, have actually impeded, made the economy perform more poorly than it otherwise would. You take those CEOs getting 300 times the amount of the typical worker. When you're taking the corporate income, giving so much to the top, obviously, you're going to have less either to give to the people at the bottom or you're going to have less to invest in the corporation. And actually, both of those are happening. So, weaker investment, more inequality, weaker wages, and then you get a vicious cycle going, so the economy isn't performing as well as it should be.

AMY GOODMAN: Now, the candidates don't actually agree. In fact, I think Hillary Clinton is getting rather nervous at the massive crowds that Bernie Sanders is drawing across the political spectrum. And so she has moved in on criticizing him. Speaking at that very same dinner, the Jefferson-Jackson Dinner Saturday, Hillary Clinton appeared to question Bernie Sanders' electability.

> **HILLARY CLINTON:** I know and you know it's not enough just to rail against the Republicans or the billionaires. We actually have to win this election in order to rebuild the middle class and make a positive difference in people's lives.

AMY GOODMAN: What is Bernie Sanders' message? Why do you think it has resonated so strongly and actually, it seems like, forced Hillary Clinton to adopt some of the same language that he has been using?


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JOSEPH STIGLITZ: Yeah, I think the point is the American people have figured out that this model hasn't worked, you know, the model that began a third of a century ago. So, they're angry, and they want a change.

AMY GOODMAN: A third of a century ago, this is very important. What? Like 35 years ago?

JOSEPH STIGLITZ: Exactly.

AMY GOODMAN: It's addressed as some kind of natural phenomenon that we cannot get in the way of: We have to allow capitalism to work. You're saying this is a very new invention that has written rules, and these rules should be changed?

JOSEPH STIGLITZ: Exactly. So, you know, take one example. Productivity of American workers has continued to grow pretty steadily. Historically, wages moved with productivity. You know, you do those two charts, they just move right together. Suddenly, around 1980, productivity continues to grow, but wages stagnate. This is really an unusual phenomenon. And that was one of the things that motivated writing the book. We said, "What's going on?" And we said, what's happened is, particularly in America, that we began to change the rules, rules of—labor rules, rules about the financial sector, rules about corporate governance, tax rules. You know, it wasn't inevitable that you tax speculation at a lower rate than you tax people who are working for a living. That's not inherent in a market economy. Actually, what we say is, this is a distortion of capitalism. This is a distortion of a market economy. And so—

AMY GOODMAN: What do you think most contributed to the inequality, in terms of the rules?

JOSEPH STIGLITZ: I think, probably, if I had to say one thing—and I think it's the whole package, but if one thing, it's the financial sector. You know, the financial sector was about two-and-a-half percent of GDP. It went to as large as 8 percent of GDP. As it grew, you know, if it had led to the economy growing so much faster, you'd said, "Well, they're getting their just desserts for helping all of us do better." But what they really were doing, you can't see in the data at all—at all—any effect on economic growth. But what we do know is it led to this kind of greater volatility, the Great Recession of 2008, from which we still have not recovered. And what they were doing is figuring out how to seize a larger share of the national income pie in a whole variety of ways.

AMY GOODMAN: Where does the American labor movement fit into this?

JOSEPH STIGLITZ: Well, that's another important piece, because, you know, you go back to the 1930s, we passed the Wagner Act, and the Wagner act said—made it easier for workers to bargain. What has happened in the last 35 years, we've made it more and more difficult for workers to bargain. Globalization has made that even more difficult, because you're sitting there with 2 billion people around the world that have been brought into the labor market, and weakening the protection, strengthening the competition, inevitably has weakened the bargaining position of workers. And so you get results today, for instance, where America is almost unique among the advanced countries in not having family leave, sick leave. You know, we're at the bottom. And, you know, to put another example, America has more inequality than any other of the advanced countries. Why is that? It's because of the way we've written the rules. It's a kind of choice that we've made. And one key part of that is the fact that unions have been made weaker.

AMY GOODMAN: Glass-Steagall?

JOSEPH STIGLITZ: Glass-Steagall is another important—

AMY GOODMAN: Explain what it is.

JOSEPH STIGLITZ: So, Glass-Steagall was—again, after the Great Depression, we divided the banks into two groups: the commercial banks, that take your deposits, ordinary people, supposed to give money to small businesses to help grow the economy; and then you had the investment banks, taking money from rich people, investing it in more speculative activities. And we had a big fight during the Clinton administration over whether we should eliminate that division. I strongly opposed it. And when was chairman of the Council of Economic Advisers, it didn't happen.

AMY GOODMAN: Under Clinton.

JOSEPH STIGLITZ: Under Clinton. But then, instead—you know, Citibank wanted to bring together these various financial institutions, and—

AMY GOODMAN: Who surround Clinton.

JOSEPH STIGLITZ: And the result of that was that we repealed Glass-Steagall. And what I was worried about precisely happened. We wound up with bigger banks that became too big to fail. The culture of risk taking, that's associated with the investment bank, spread to the whole banking system, and so all the banks became speculators, actually lending to small businesses lower than it was before the crisis. And the kinds of conflicts of interest that were rampant in the years before the Great Depression started to appear all over the place in our financial sector.

AMY GOODMAN: So Bernie Sanders has called for the reinstatement of Glass-Steagall. Hillary Clinton has not.

JOSEPH STIGLITZ: Yeah, I hope that she will. But I think the fundamental issue here is, we have to tame the financial sector. And in our book, *Rewriting the Rules*, we describe how that can be done.

AMY GOODMAN: How, exactly?

JOSEPH STIGLITZ: Well, there are many things. Glass-Steagall is one approach that I've increasingly come to. We actually don't talk about it in the book. There are some other ways that we do focus on, on things like curbing their excessive risk taking.

One of the important things that people haven't realized is, every time they use their debit card, merchants pay a significant price for their use. It's like a tax on every transaction. But it's a tax that doesn't go for public purpose; it goes to enrich the coffers of the credit card companies, the debit card companies. We were supposed to curtail the—one part of that in the debit card. It was called the Durbin Amendment to Dodd-Frank. But we delegated it to the Federal Reserve. The Federal Reserve's staff recommended a fee—that I thought was excessive—and then the Federal Reserve doubled the fee that they had recommended. So, it's much better than it was before Dodd-Frank, but it's still a tax on every transaction, a tax that winds up being paid for by everybody who buys any good in our economy. So that's an example of how you transfer money from ordinary individuals to the financial sector. And it's one of the reasons why the financial sector is making so much money and the rest of us are paying the price.

One other example that President Obama has emphasized is, you know, people have savings accounts, a variety—IRAs. And the question is, when you put your money in an IRA, does the person who's supposed to manage that have a fiduciary responsibility? That is to say, can he manage it for his own interest, turning it over and getting a lot of commission, or does he have a responsibility, a fiduciary responsibility, to manage it in your interest? Now, you would say, obviously, he should have that fiduciary responsibility. But the banks are resisting imposing that as a condition. And the result of not having that is that the banks are making billions and billions, tens of billions of dollars every year more than they otherwise would than they otherwise would.

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