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*Jonathan:* From Amsterdam, This is Bright Minds, the podcast from the John Adams Institute, a treasure trove of the best and the brightest of Americans thinking. I'm Jonathan Groubert, and this week's guest is the Nobel Prize winning economist Joseph Stiglitz. He's had a close look at the American devotion to this thing called trickle down or supply side economics. And he has come to a pretty clear conclusion.

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*Joseph Stiglitz:* We've now had four decades of this experiment, and it's failed.

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*Jonathan:* This failure is why he says America should adopt something called progressive capitalism, as outlined in his book *'People Power and Profits'* (2019). Joseph Stiglitz told an enraptured John Adams audience all about it in November of 2019. In "People, Power and Profits", Stiglitz states that the U.S. got three things wrong in the past decades. Economics, placing too much faith in markets. The influence of money in politics and values by forgetting that the government is here to serve all its citizens and not just a few wealthy ones. He explains that the U.S. must be freed from the grasp of wealthy corporate forces in finance and other sectors, so that a decent middle-class life can once again be attainable for all, by making sure that markets work for people and not the other way around. Later on, Mr. Stiglitz will be joined by the journalist Sheila Sitalsing and Alexander Rinnooy Kan, professor of economics and business at the University of Amsterdam, for a great conversation about how successive democratic governments failed to save the middle class, Austerity, regulating the internet and more. So you're going to want to stick around for that. But first, let's get back to Joseph Stiglitz talk, where he starts off bursting a few bubbles about the American dream.

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*Joseph Stiglitz:* Now we realize that that's a myth. Yes, some people make it from the bottom to the top. You read about in the newspaper because it's unusual. Newspapers don't write about things that happen every day. But in terms of statistics, what is the life prospects of a young American? They're more dependent on the income and education of his parents than in almost any other advanced country around the world, and that includes old Europe. And I'll give you a couple of pictures to show that. And then, of course, there are inequalities of voice, power and access to justice, all of which have played a big role in the kind of discontent that you see in American politics today.

So just to go very quickly through some curves to give you a picture, the median income of a full time male worker, and the full time workers are the lucky ones, is the same level that it was more than 40 years ago. So if you feel the discontent of the male workers and some of the Trump rallies, it's understandable. It's two generations almost that they haven't had a pay rise. If you look at the bottom, median is in the middle half above half below. But if you look at the bottom. Things are even worse. The real wages at the bottom are the same as they were 60 years ago. When you give a talk in China and I talk about what's happened to people at the bottom. They can't believe it because 60 years ago, their per capita income was one hundred and fifty dollars. And it's increased 10, 12, 20 fold. Well, nothing has happened to the people at the bottom in the United States. The labor share has declined dramatically. And especially in the data and labor share, you have to be careful

because the data typically include CEOs. As long as they get paid a salary, they call it a worker. That what most people mean by workers and the bankers are also included as workers. So, if you exclude the top one percent of labor share, you see this dramatic decline in a relatively short time from 75 percent of national income to 60 percent.

The Walton family and the Koch brothers, eight people who inherited their money, they didn't work for it, had a net worth of \$212 billion in 2016, and that's equivalent to the wealth of one hundred and fifteen million Americans. So, eight Americans had as much wealth as 115 million Americans. Wealth, more generally, is twice as unequal as income, so the top one percent is about 47 percent of the wealth. That one tenth of one percent has about a more than 20 percent of wealth. And in terms of inequality of opportunity, they are both trapped. At the top and perhaps at the bottom. By that, I mean, if you're born at the top, no matter how badly you do in school, you'll probably be pretty well off. And if you're born at the bottom, no matter how well you do in school, you're not going to be very well off. So somebody who does well from the bottom winds up with a lower income than somebody who does badly from the top. So I tell my students, there's one really important decision you have to make in life. One choice you have to make and that is choosing the right parent. And if you mess up on that, the game is over. And this is a little graph that illustrates two points, actually. One is that there are huge disparities, both in income inequality and opportunity across countries. And the other point is that countries that have more equality of opportunity have more equality of income have more equality of opportunity. So not a surprise. The Scandinavian countries that have low levels of inequality have high levels of opportunity. And the United States and the UK have high levels of inequality and low levels of opportunity.

I said that health and life expectancy are in decline. And this graph illustrates that. And the reason white Americans are separated out is because some people say, Well, you know, you can't mix different socioeconomic groups. And what you see very dramatically there is, these are the death rates. White Americans, while Hispanic Americans and all other countries are having death rates that are going down, which is what you would expect from modern science. White Americans are having a death rate that is either stagnant or going up. And if you look at the causes of the death, they are what Ann Case and Angus Deaton, Angus Deaton got the Nobel Prize in 2015, called deaths of despair, the suicide drug overdose, alcoholism all the signs of a dysfunctional society, and these increases in death rate have spread across the country like a disease. And it's happened actually very quickly. My concern is that actually going forward, problems may become even worse as a result of the changes in technology. I want to go to what to do about all of this. And that is progressive capitalism as a major reform. I can spend a lot of time telling you what's wrong with our growth, what's wrong with why we have so few young firms, even though we're innovation economy. You know, there are lots of the diagnosis, but I want to talk about... half the book is really about, what to do about it. Next to this idea that I mentioned at the beginning of progressive capitalism.

The word harks back to earlier periods when the abuses of political and economic system became intolerable. (The) America's Gilded Age, when qualities were again, extraordinarily high, period of monopoly power. You know, Rockefeller and oil and a whole

set of monopolies. And there were a set of major reforms in the United States social legislation, antitrust, and they succeeded in creating a more dynamic capitalism and our prosperity that was better shared. And the antitrust laws were passed not just as a matter of economics. They were more about sharing political power. They were about maintaining our democracy. And one of the sad things that's happened is: The economists have taken over the world, and the economist took this broad idea of making sure the power was not concentrated, and a very few, gave it a very narrow economic definition. And limited the scope of antitrust to the point that it became a technical matter, gave economists a lot of ranks because they could testify in court proceedings and argue with each other about whether particular firm was a monopolist or not. But the underlying problem of power, of political power was put aside. That's part of the title of my book 'People Power and Profits'. It's about the core idea of the inequality in power in our society, and that idea has had a lot of resonance in the United States.

So there are four key elements of the progressive capitalism; rewriting the basic rules of the economy to constrain power, to constrain the abuses of power, to create a more efficient, fairer economy, and to ensure that we live within our planetary boundaries. The second is public expenditures, to do what the private sector cannot and will not do, or to do with the government has a comparative advantage of doing. Third, of course, you need money to finance this fair and efficient taxation to help finance these public expenditures. And finally, even if you accomplish all those things, ensuring access to a middle class, decent life, including through a variety of techniques, one of them being something I call it 'the public option'. So I'm going to spend most of my next few minutes, the last few minutes talking about rewriting the rules and then I'll stop. The point here is that markets don't exist in a vacuum. They have to be structured. Societies can't function without good rules. These rules have distributive consequences. The rules were written in an era of neoliberalism in ways that led to more inequality, more market power, less efficient economy. And now they have to be rewritten again to achieve a more dynamic economy and greater equality. Mild changes are not likely to make matters much better. What is required is major changes based on what we have learned from successes and failures here and elsewhere. And what you call it, whether you call it socialism or social democracy or democratic socialism isn't important. What is important is what we do. And at the core of that is what I've called this new social contract or our new economic order. And I believe this can produce greater growth with more equality and address the climate inequality crisis that we are now confronting.

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*Jonathan:* And so the journalists, Sheila Sitalsing and Professor Alexander Rinnooy Kan of the University of Amsterdam took to the stage, to talk about things like how even democratic governments in the U.S. forgot the middle class, why austerity economics don't work and even how many Americans are looking to Europe to save them. But Sheila Sitalsing starts off with the question a lot of people were wondering about in 2019 a question a lot of us would still like an answer to

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*Sheila Sitalsing:* What happened to the Republican Party? I mean, you were there in the 90s as an adviser to Bill Clinton, so you would be there when policy was being made and you saw

how difficult it was to change, actually change, things. Yeah. Wages have been down for 40 over 40 years. So what happened that you weren't able to reverse that during the democratic period and what happened to the Republican Party?

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*Joseph Stiglitz:* Yeah. The defining moment in a way was 1994-96. That period where Newt Gingrich became the speaker of the House, put forward what was called "the contract for America." Some of us called it "the contract on America," but it was an enshrinement of notions of market fundamentalism, neoliberalism. It was a commitment to the Republican Party to move in that direction, reduce taxes at the top. It was a continuation of the Reagan revolution. You might say. The Reagan revolution had not produced growth. So what was their response? Double down on that. Let's do more of it and hope that if we go over taxes on the top, even more, deregulate even more. Maybe it'll work.

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*Alexander Rinnooy Kan:* But in all, fairness to democratic presidents set in between Bill Clinton and Barack Obama. So how come they couldn't at least make a small dent?

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*Joseph Stiglitz:* in the first two years of Clinton, There was a Democratic Congress, and only in the first two years of Obama was the Democratic Congress. So in all the other years of a Democratic presidency, there was Republican control of both the House and the Senate. So, there was no way of getting legislation through. So, we talked a lot of ideas. But at that moment, and particularly in the 90s, the ideas of neo-liberalism spread all around the world. So, it was across party, and Clinton did push financial market deregulation. We were talking about globalization. The Democrats said there ought to be trade adjustment assistance to the workers who lose their jobs. When the Republicans came back and said, No, we don't want, you know, we want wages to go down, so we want the workers to be, to suffer a little bit. The Democrats accepted those notions on the view that if there's enough growth, everybody will benefit trickle down. They bought into the trickle down theory. Not all, but enough did. That they accepted that. And so in that sense, yeah, there was complicity. And then the same thing happened in Obama when in 2008. And I think that has a lot to do with the current political situation in 2009, you know, in responding to the crisis, even though Obama's chief of staff, Rahm Emanuel, said you shouldn't let a crisis go to waste. He was too afraid of challenging the establishment, and he appointed the same people who had deregulated the financial system to save the banks. And they saved the banks but didn't save the homeowners didn't do very much for the workers. I was on a conference call right after Lehman Brothers collapsed, and the question was what was going to be the Democratic Party response.

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*Sheila Sitalsing:* And what did you advise them?

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*Joseph Stiglitz:* Well, the proposal that was on the table was a \$700 billion bailout to the banks, and most of the people on the conference call were from the financial sector. And their main question was why only \$700 billion? And the answer to that was, don't worry if you need more money, we'll come up with it. But we thought a trillion dollars looked too

big. Would I raise the question? You know, you better spend a little bit some money for the homeowners who are losing their homes and the workers are going to be losing their jobs, the people from the financial sector said, You know, we're talking about serious things here.

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*Sheila Sitalsing:* This is big boys talking.

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*Alexander Rinnooy Kan:* I was just listening to you again. You have one proposal in your book where the Netherlands might help you a little bit, which is where you suggest that government should offer a job to everybody who cannot easily find a job in a Private sector. And this is an experiment that we have run on your behalf. And they were called the Melkert Jobs, and the reason that it didn't work so well is that it was very hard to persuade people to move from these jobs to what you might think of as regular jobs. And so basically, they got stuck. And at the end of the day, the net result was very disappointing. And most of these jobs and most systems creating them have by now disappeared. What makes you optimistic that this could really work?

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*Joseph Stiglitz:* You're right, it's not an easy job to craft this kind of program. In the book, I say, you know, if we can't get our labor market to work well, so that we get full employment through monetary and fiscal policy, then this is a second best. But so far, our labor market hasn't worked well. The unemployment rate say for African American youth is four times the national average. We will probably need to intervene if we're going to get them included. You know, these groups that have been excluded, to get them included in the labor market. it's an important social agenda as well as an economic agenda. Now, obviously, you have to design the programs with an objective of moving people into other jobs. And that means you have to think about as you design of maybe having partnerships with private firms, you're taking on a lot of burden of training, but it's an active training program, making sure they're learning skills that are valuable in the rest of the economy. I mean, obviously, if you don't train them for skills, for jobs that don't exist, then the program is not going to work. And you may have to limit the scale of the program. But one of the things I, you know, point out that India, relatively poor country, has had a rural employment guarantee scheme involving 800 million people in the rural sector, and it's worked relatively well. The main criticism is that wages in the rural sector have gone up, and the employers in the rural sector don't like that. But the intent of the program was to increase living standards in the rural sector, and it actually did that. It's a guarantee not of a full time job, because it's 100 days a year. And that gives them a backstop if the market doesn't work.

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*Sheila Sitalsing:* One of the other things you were talking about is the concentration of power in Silicon Valley. Would you be in favor of breaking up Facebook, for instance? Would you do that, break them up?

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*Joseph Stiglitz:* Facebook, there was no reason that we should have allowed Facebook to acquire Instagram and WhatsApp. You know that that was clearly a concentration of market power, why it was so obvious when they paid so much for Instagram. Where they have the

technology to produce the same kind of thing. Why do they pay so much for it? Because they were...

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*Sheila Sitalsing:* Buying the users.

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*Joseph Stiglitz:* They they're buying the users, but more than that, they were preempting competition. That that was really what this was about. And so they, they wanted to make sure there wasn't competition. A good antitrust authority would have said: "No, you can't do that." So that's the case. Where breaking it up would help. But there is a natural monopoly on some of these platforms. It's going to be very difficult to break up Google and Facebook. So then you have to go to regulate their practices. So there's no reason that Google needs to go into becoming a store, an online store. There are enormous conflicts of interest that have been exposed by the competition authorities in Europe. There's no reason to have those conflicts of interest. So that's an example. In the case of Facebook. We have laws about consumer protection. Facebook agreed to respect privacy and then what did it do? Ignored that agreement, and it got fined \$5 billion. So those are examples of where you need regulations. But we haven't yet gotten the kind of regulations that you have in Europe. And just a couple of weeks ago, Zuckerberg testified that he's going to allow lies about politics. It's OK if you lie about some opponent's positions and you confuse voters. Yeah, I think it played a role in 2016 unless we have better regulation is going to play a role in elections all over the world.

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*Alexander Rinnooy Kan:* So that would imply, would it not, the form of a priori censorship on what could appear on Facebook?

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*Joseph Stiglitz:* It's not censorship, but it's accountability. You know, why is there all these bad activities going on the internet? In part, it was because the tech companies in the beginning said to get us going. You have to give us freedom from liability. Newspapers, if they publish the same things, would be liable. They'd be sued. There's a difference between the newspaper and the internet. But that freedom from liability gave them a license to be irresponsible. Now we have restrictions on free speech all the time. You can't cry fire in a crowded theater. You can't engage in childhood pornography. The question is to make our society function where we draw the boundary. Germany has passed laws about hate speech, and it's very clear that different societies are drawing the boundaries in different ways. Fifteen years ago, ten years ago before Trump, nobody thought there was an issue about using the internet to manipulate an election in a way that has actually happened. And that is beginning to force us to begin debate. Where do we draw the line? You know, I don't have the answer, but what I think is very clear, saying 'everything goes' is going to be very dangerous for our democracy.

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*Sheila Sitalsing:* Going to the last question, Alexander.

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*Alexander Rinnooy Kan:* I'm going to sneak in two questions, if I may. Really benefit from

your presence here. First of all, when we were in the middle of our economic crisis, you came out very critically against austerity politics. At some point, you refer to it as a suicide pact. And you spoke on behalf of countries like Greece and Spain that were caught in a terrible bind. And my question to my first question to you would be, can you give us any advice on how we should prepare for the next recession, if and when it should come, and how your advice is influenced by the fact that we seem to be heading for a period with very low, if not zero real interest rates? A development that, according to some people, should ask for a real re-evaluation of what macroeconomics is really all about.

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*Joseph Stiglitz:* That's a very good question. Let me say those countries who believe in the fiscal restraint, three percent deficit. There's a widespread view that when the interest rate gets down to zero and you can't stimulate it, then you have to use other tools and you have to use fiscal policy. So there's always a debate about the mix of fiscal and monetary policy, but when monetary policy isn't working, there's only one thing left and the cost of not using fiscal policy is very great. I feel very strongly that there should be a reform in the growth and stability pact, and the minimum reform would be the one I just described, that that exception when you... But I think, you know, if you ask where that three percent number come from, it was pulled out of thin air was not based on any economic science. It was just a number that somebody thought of. It had no scientific basis to it. And particularly when you ask the question, the deficit looks at one side of the balance sheet of the country, and that's the liability side. No firm would you ever look at just the liability side of the balance sheet. You would always want to look at the assets side. So if you ask what if we got more debt, but we spent the money on investments, on infrastructure, on technology and education, then the balance sheet could be stronger. The country is actually in a better position. Now, one of the big issues that obviously a lot of people in the audience feel strongly about is the climate crisis. And so another change that is being discussed in some countries in Europe is called the green rule. And that says if you're going to spend the money on green investments, you should be allowed to go over that three percent target. Europe has been committed to doing something about climate change, but what are the tools? How is it going to do it? And this would be one way of incentivizing and particularly countries like Italy, that have no fiscal space, and this would allow them to return to economic growth and make a contribution to creating a greener Europe. Finally, I think really the countries in Europe that have fiscal space that, as I say, who don't have a high debt, who have the borrowing capacity like Germany, I think.

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*Alexander Rinnooy Kan:* I can think of another one.

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*Sheila Sitalsing:* small one.

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*Joseph Stiglitz:* I think should really be using that fiscal space not only for their own well-being, but for the well-being of Europe as a whole. And (applause). So I think there is an agenda that can help you store it, this is related to one of the questions about the weaknesses in Europe. This would do more than almost anything else to restore growth to Europe.

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*Alexander Rinnooy Kan:* I was hoping that you'd say something like that. My final question and your final sentence in the book is something like 'let's hope it's not too late for capitalism to save it from itself'. My question really is what would happen if it doesn't? Is there a Plan B and if so, what is it? Or maybe more bluntly, should we send our children to prepare for their own future to Beijing or to Boston?

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*Joseph Stiglitz:* I would say as Americans were looking more to Europe as our salvation. You may be growing more slowly, but you're growing more together. The fact is that this divide that's opening up in the United States economic, social and political divide is very corrosive of our whole society. So, you ask what happens if we don't? You know, all we say is, I pray. I think it's very hard to see how our whole society could hang together. So, my hope is that somewhere in the world. And right now, the best prospect is Europe. There are countries that come to understand that you can't have sustainable prosperity without having shared prosperity.

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*Jonathan:* That was Nobel Prize winning economist, author and teacher Joseph Stiglitz there, taking questions about the ideas in his book "*People Power and Profits*." He spoke at the new DeLaMar theatre in November of 2019 here in Amsterdam. The evening was presented in collaboration with the publisher Athenaeum Uitgeverij

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