Book Review: The Price of Inequality: How Today's Divided Society Endangers Our Future.

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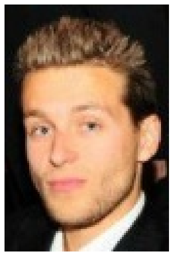

*America currently has the most inequality and the least equality of opportunity among the developed countries, writes Nobel Prize-winning economist **Joseph E. Stiglitz** in **The Price of Inequality**. While market forces play a role in this stark picture, politics has shaped those market forces. Stiglitz aims to explain how inequality affects and is affected by every aspect of national policy, and with characteristic insight he offers a vision for a more just and prosperous future, supported by a concrete program to achieve that vision. **Joel Krupa** encounters passionately argued points with a scattering of controversy.*

The Price of Inequality: How Today's Divided Society Endangers Our Future. Joseph Stiglitz. Penguin. April 2013.

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Although it seems almost comical today, the (now unpopular) former Federal Reserve Chairman Alan Greenspan once fretted over the dangers of persistent budgetary surpluses for the American fiscal situation. Swelling influxes of cash into the Treasury, he believed, could make monetary policy more difficult to implement, as the Federal Reserve increases or decreases the money supply – and, by extension, all-important interest rates – through U.S. Treasury bill sales or purchases. Unfortunately, Greenspan's supposedly moderating policy prescriptions (lower taxes, frothing asset bubbles, and persistent deficits) had foreseeable consequences, and reached their logical culmination in the Great Recession of 2008. Ludicrous views in hindsight, of course, but as Keynes once opined, "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood".

This is just one of countless enjoyable titbits shared in Nobel laureate Joseph Stiglitz's recent book *The Price of Inequality*. A rancorous romp through recent US economic history, the versatile economist that authored it has woven an immensely entertaining and profoundly thoughtful tale. As Stiglitz – no stranger to controversy – freely admits in the introduction, much of his indignant air and decidedly anti-right political leanings are rooted in humble Gary, Indiana (a place this reviewer, who has visited this archetypal declining Midwestern U.S. city on more than one occasion, believes is likely to acutely attune any astute long-time resident to the hardships associated with economic injustice and social strife). The things Stiglitz saw there appear to have ingrained in him a set of beliefs that lingered with him throughout times in the upper echelons of finance that, more often than not, tend to dull such sensitivities; namely, that socioeconomic systems which allow all individuals in a given society to realize upward mobility and better their individual circumstances are not only common sense and rooted in practical ethics – they represent good economic sense, too.

The current economic landscape bears little semblance to any positive normative standards, however, and one can safely argue that prospects appear grim under Stiglitz's learned gaze. Strong economic forces, already tilted in favour of the wealthy, are being nudged further along by harmful pro-rich political interference in taxation, budgetary, and monetary policies. The mighty United States is becoming more unequal, and that nation's poorest are becoming poorer while a once-proud middle class is decimated. Odiously, armchair academic economists have provided the intellectual underpinnings to justify these actions, primarily through the promulgation of dubious theories and "scientific" postulations that have little basis in reality.

Timely anecdotes on the demise of the middle class bring the seriousness of this problem into clear view. Stiglitz argues that “the 2007-2008 financial crisis and the Great Recession that followed cast vast numbers of Americans adrift in the flotsam and jetsam of an increasingly dysfunctional form of capitalism [characterized by a lack of recognition and opportunity for those with less, and actual reductions in their standard of living].” The hard figures associated with this evolution tell a startling tale. Stiglitz again: “For an even more striking illustration of the state of inequality in America, consider the Walton family….[these] heirs command wealth of $69.7 billion dollars, which is equivalent to the wealth of the entire bottom 30 percent of U.S. society”. Some will be displeased with the implications of quantitative analysis on the so-called land of free, but an undeniable truth emerges here: more and more, family income, parental support, and plain old luck play a far greater role in one’s ultimate success than hard work, intellectual capabilities, or personal ambition.

Worryingly (and certainly counter-intuitively to some of inequality’s key proponents), such a configuration over the long-term may even be unhelpful for the short-termist main benefactors. Deeply unequal societies tend to more violent and crime-ridden, as well as economic underperformers. A solid middle class creates demands for the products generated by firms, pays the requisite taxes for sustainable infrastructure and adequate health care provision, and contributes to the pension funds that stabilize equity markets. In short, more equal societies create vibrant, durable, and fundamentally egalitarian economies and societies that are better for everyone – including the rich.

Refreshingly, Stiglitz is also passionate about rectifying excessive economy-related impacts on ecosystems and human health. He sees modern assessment measures like GDP or gross corporate revenues as chimeras, for figures like national growth and corporate profits do not account for the substantial deleterious impacts on the environment that they inflict. For example, the unconscionable lack of taxation on environmentally degrading or carbon emitting activities means that the collective bears the burden for the activities of a few. These cumulative externalities amount to a hidden subsidy and an undeniable misalignment between social returns and private returns. Frustratingly, vested interests seem hell-bent on maintaining this imbalance, and former presidential Council of Economic Advisors Chairman Stiglitz recalls how his attempts to implement curbs on these shortcomings through the introduction of holistic Green GDP metrics were thwarted by unsavoury rent-seekers.

As in all texts, there are some distinctly controversial points. The author apportions a great deal of ink to the gaping holes inherent to overtly right-leaning political and economic ideologies, but his polemic does not concede some of the equally injurious consequences of the leftist equivalents (socialist states, in the opinion of this reviewer, are often far removed from any common definition of utopia). A more balanced critique, hints of which can be found in past work, might have rendered his rhetoric less susceptible to the inevitable cries of bias. Moreover, the generalizations contained in some hyper-partisan statements are more than a little eyebrow-raising; for instance, one section sees him confidently asserting that government lies at the core of innovation at Silicon Valley – a dubious contention, to say the least, as other factors like excellent proximate universities, pleasant weather, and the intangible wonderfulness of Northern California’s cultural ideals are probably more relevant than the governance framework to which Stiglitz ascribes so much influence. In the same vein, he claims that government-backed research and development remains integral to cultivating long-term industry supremacy, even though preliminary evidence suggests that top-down innovation can sometimes have sub-optimal outcomes (see Wallsten, 2000). Relatively – and still admittedly – unsettled minor deficiencies, but still worth noting here.

So what is the solution to the perplexities of economic inequality – a problem which, at least to a limited extent, will always be with us? Stiglitz has some prescriptions for America – higher taxes on the rich, reductions in corporate welfare, and an elimination of taxation shenanigans – but in a finite world still defined by billions of individuals living in abject poverty, the answers clearly cannot be found strictly within the dismal science of economics. This reviewer believes that there may be a non-financial alternative (according to Stiglitz, this would be welcome, as there does not appear to be any definitive long-run relationship between GDP growth and subjective perceptions of well-being) which resides in an under-appreciated branch of philosophical thought known as Stoicism. The Stoic ancients – Seneca, Marcus Aurelius, and Epictetus among others – teach us that happiness is derived more from our social and intellectual capital, as well as our dedication to excelling insofar as our innate limitations allow, rather than from our material possessions or financial prowess. Nurturing the former facets of our own lives, while simultaneously facilitating the latter advancement opportunities for those with fewer material goods, would be a good – albeit far from complete – first step towards resolving some of the complex issues elegantly outlined in the stimulating tome *The Price of Inequality*.

Joel Krupa is an energy and environment researcher at the University of Toronto, studying under Dr. Danny Harvey. He was educated at Oxford. Read more reviews by Joel.