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The Great Divide NYT NOW

Inequality Is Not Inevitable

By JOSEPH E. STIGLITZ

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The Great Divide is a series about inequality.

AN insidious trend has developed over this past third of a century. A country that experienced shared growth after World War II began to tear apart, so much so that when the Great Recession hit in late 2007, one could no longer ignore the fissures that had come to define the American economic landscape. How did this "shining city on a hill" become the advanced country with the greatest level of inequality?

One stream of the extraordinary discussion set in motion by Thomas Piketty's timely, important book, "Capital in the Twenty-First Century," has settled on the idea that violent extremes of wealth and income are inherent to capitalism. In this scheme, we should view the decades after World War II — a period of rapidly falling inequality — as an aberration.

This is actually a superficial reading of Mr. Piketty's work, which provides an institutional context for understanding the deepening of inequality over time. Unfortunately, that part of his analysis received somewhat less attention than the more fatalistic-seeming aspects.

Over the past year and a half, The Great Divide, a series in The New York Times for which I have served as moderator, has also presented a wide range of examples that undermine the notion that there are any truly fundamental laws of capitalism. The dynamics of the imperial capitalism of the 19th century needn't

apply in the democracies of the 21st. We don't need to have this much inequality in America.

Our current brand of capitalism is an ersatz capitalism. For proof of this go back to our response to the Great Recession, where we socialized losses, even as we privatized gains. Perfect competition should drive profits to zero, at least theoretically, but we have monopolies and oligopolies making persistently high profits. C.E.O.s enjoy incomes that are on average 295 times that of the typical worker, a much higher ratio than in the past, without any evidence of a proportionate increase in productivity.

If it is not the inexorable laws of economics that have led to America's great divide, what is it? The straightforward answer: our policies and our politics. People get tired of hearing about Scandinavian success stories, but the fact of the matter is that Sweden, Finland and Norway have all succeeded in having about as much or faster growth in per capita incomes than the United States and with far greater equality.

So why has America chosen these inequality-enhancing policies? Part of the answer is that as World War II faded into memory, so too did the solidarity it had engendered. As America triumphed in the Cold War, there didn't seem to be a viable competitor to our economic model. Without this international competition, we no longer had to show that our system could deliver for most of our citizens.

Ideology and interests combined nefariously. Some drew the wrong lesson from the collapse of the Soviet system. The pendulum swung from much too much government there to much too little here. Corporate interests argued for getting rid of regulations, even when those regulations had done so much to protect and improve our environment, our safety, our health and the economy itself.

But this ideology was hypocritical. The bankers, among the strongest advocates of laissez-faire economics, were only too willing to accept hundreds of billions of dollars from the government in the bailouts that have been a recurring feature of the global economy since the beginning of the Thatcher-Reagan era of "free" markets and deregulation.

The American political system is overrun by money. Economic inequality translates into political inequality, and political inequality yields increasing economic inequality. In fact, as he recognizes, Mr. Piketty's argument rests on the ability of wealth-holders to keep their after-tax rate of return high relative to economic growth. How do they do this? By designing the rules of the game to ensure this outcome; that is, through politics.

So corporate welfare increases as we curtail welfare for the poor. Congress maintains subsidies for rich farmers as we cut back on nutritional support for the needy. Drug companies have been given hundreds of billions of dollars as we limit Medicaid benefits. The banks that brought on the global financial crisis got billions while a pittance went to the homeowners and victims of the same banks' predatory lending practices. This last decision was particularly foolish. There were alternatives to throwing money at the banks and hoping it would circulate through increased lending. We could have helped underwater homeowners and the victims of predatory behavior directly. This would not only have helped the economy, it would have put us on the path to robust recovery.

OUR divisions are deep. Economic and geographic segregation have immunized those at the top from the problems of those down below. Like the kings of yore, they have come to perceive their privileged positions essentially as a natural right. How else to explain the recent comments of the venture capitalist Tom Perkins, who suggested that criticism of the 1 percent was akin to Nazi fascism, or those coming from the private equity titan Stephen A. Schwarzman, who compared asking financiers to pay taxes at the same rate as those who work for a living to Hitler's invasion of Poland.

Our economy, our democracy and our society have paid for these gross inequities. The true test of an economy is not how much wealth its princes can accumulate in tax havens, but how well off the typical citizen is — even more so in America where our self-image is rooted in our claim to be the great middle-class society. But median incomes are lower than they were a quarter-century ago. Growth has gone to the very, very top, whose share has almost quadrupled since 1980. Money that was meant to have trickled down has instead evaporated in the balmy climate of the Cayman Islands.

With almost a quarter of American children younger than 5 living in poverty, and with America doing so little for its poor, the deprivations of one generation are being visited upon the next. Of course, no country has ever come close to providing complete equality of opportunity. But why is America one of the advanced countries where the life prospects of the young are most sharply determined by the income and education of their parents?

Among the most poignant stories in The Great Divide were those that portrayed the frustrations of the young, who yearn to enter our shrinking middle class. Soaring tuitions and declining incomes have resulted in larger debt burdens. Those with only a high school diploma have seen their incomes decline by 13 percent over the past 35 years.

Where justice is concerned, there is also a yawning divide. In the eyes of the rest of the world and a significant part of its own population, mass incarceration has come to define America — a country, it bears repeating, with about 5 percent of the world's population but around a fourth of the world's prisoners.

Justice has become a commodity, affordable to only a few. While Wall Street executives used their high-retainer lawyers to ensure that their ranks were not held accountable for the misdeeds that the crisis in 2008 so graphically revealed, the banks abused our legal system to foreclose on mortgages and evict people, some of whom did not even owe money.

More than a half-century ago, America led the way in advocating for the Universal Declaration of Human Rights, adopted by the United Nations in 1948. Today, access to health care is among the most universally accepted rights, at least in the advanced countries. America, despite the implementation of the Affordable Care Act, is the exception. It has become a country with great divides in access to health care, life expectancy and health status.

In the relief that many felt when the Supreme Court did not overturn the Affordable Care Act, the implications of the decision for Medicaid were not fully appreciated. Obamacare's objective — to ensure that all Americans have access to health care — has been stymied: 24 states have not implemented the expanded Medicaid program, which was the means by which Obamacare was supposed to

deliver on its promise to some of the poorest.

We need not just a new war on poverty but a war to protect the middle class. Solutions to these problems do not have to be newfangled. Far from it. Making markets act like markets would be a good place to start. We must end the rent-seeking society we have gravitated toward, in which the wealthy obtain profits by manipulating the system.

The problem of inequality is not so much a matter of technical economics. It's really a problem of practical politics. Ensuring that those at the top pay their fair share of taxes — ending the special privileges of speculators, corporations and the rich — is both pragmatic and fair. We are not embracing a politics of envy if we reverse a politics of greed. Inequality is not just about the top marginal tax rate but also about our children's access to food and the right to justice for all. If we spent more on education, health and infrastructure, we would strengthen our economy, now and in the future. Just because you've heard it before doesn't mean we shouldn't try it again.

We have located the underlying source of the problem: political inequities and policies that have commodified and corrupted our democracy. It is only engaged citizens who can fight to restore a fairer America, and they can do so only if they understand the depths and dimensions of the challenge. It is not too late to restore our position in the world and recapture our sense of who we are as a nation. Widening and deepening inequality is not driven by immutable economic laws, but by laws we have written ourselves.

This is the last article in The Great Divide.

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