

Understanding and Addressing Inequalities

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Covid-19 is not an equal-opportunity virus

- It has exposed and exacerbated pre-existing inequalities
 - And exposed deficiencies in systems of social protection
- Those with poor health most vulnerable
- Countries with poor public health care systems had (all else the same) more individuals who were vulnerable
 - Average life expectancy in US already in decline *before* pandemic
 - Larger health disparities than in other countries of comparable income
- Health care is too important a part of societal wellbeing to be left to the market
 - Disparities in health status larger than disparities in income
 - Reminder that there are multiple dimensions to inequality—income inequality is only one

Unequal exposure to economic impact of pandemic—both within and between countries

- Those at the top were less affected
 - Could work remotely, on Zoom
 - Were in sectors that were less affected (this was the first service sector economic downturn)
- Countries with large fiscal capacities took strong actions
 - With Biden, well-designed plan to combat poverty, provide better social protection
 - Poverty rate did not go up; childhood poverty reduced by 50% in one year
- But poorer countries didn't have resources either to combat disease or its economic aftermath

Disappointing global response

- Huge inequities in access to vaccines
 - A few European countries still blocking access to IPR that would increase global supply—a key bottleneck
 - Putting profits over lives
 - If there can't be global cooperation in this arena, where self-interest in cooperation is so evident, what does it say about potential for cooperation in more difficult areas?
- Some cooperation in dealing with economic aftermath
 - \$650 billion SDR's—after initial Trump veto
 - Still, no agreement in recycling to help developing countries and emerging markets
 - Still, almost nothing done about unbearable burden of debt

Importance of system of social protection also demonstrated by pandemic

- Many elements of a system of social protection
 - Health
 - Housing
 - Income
 - Food
 - Retirement security
- Private sector provides only limited protection
 - Insurance markets are important
 - But are often inefficient (high premia), with limited coverage
 - Economic theory over recent decades has explained these limitations
 - Theory of asymmetric information
 - Correlated risks
 - Economic theory has also explained why markets are often marked by exploitation
 - Excessive profits, taking advantage of individual vulnerabilities, sometimes engaging in discrimination
 - Need regulation—but markets have resisted

Large consequences of absence of social protection

- High levels of insecurity
 - Undermining wellbeing
 - Undermining productivity
- Higher levels of poverty, indebtedness
 - Contributing to inequality
 - Especially in times of turbulence
- Pandemic has shown another dimension
 - In countries without adequate social protection—including paid sick leave-- and high levels of inequality, those who were sick went to work
 - And without good worker-protection regulations, employers did not provide masks, protective gear, or arrange appropriate social distancing
 - Helping spread the disease

Pandemic has shown deficiencies in multiple elements of social protection schemes

- In some countries, unable to handle surge in unemployment
- Some countries showed greater administrative capacity in getting funds to the most vulnerable
 - And in protecting small businesses
- Some countries showed great deficiencies in systems of protecting workers' safety and health
- Many countries showed lack of resilience both in the public and private sectors
 - Failure to assess risk – reflection of short-sightedness
 - Lack of capacity to deal with surges; just-in-time inventory systems; cars without spare tires

Good systems of social protection based on and built trust and solidarity

- Trust and solidarity showed their importance during the pandemic
- Pandemic was a public health crisis
 - At the center (as in climate change) are *externalities*
 - What one individual does affects others
 - When there is solidarity and trust individuals engage in actions showing respect for others—wearing masks, social distancing, getting vaccinated
 - Containing spread of disease
- When and where there is not solidarity and trust, there has been political division, misguided arguments about individual's freedoms, and higher disease
 - One individual's freedom is another's "unfreedom"
 - Most important right is right to live—taking away others' right to live

Trust in institutions and science

- Dealing with pandemic requires trust in institutions and science
- Inequality bred lack of solidarity, lack of trust, and provided fertile grounds for mis- and disinformation—undermining science
 - Perhaps related to failed promises of shared prosperity from globalization, financialization, technological progress
- Making it all the more difficult to get control of pandemic
 - Representing a global threat
 - As long as disease rages anywhere, potential for more contagious, deadly, vaccine-resistant mutation
- Trust and solidarity an important part of wellbeing in its own right
- Necessary for creating sustainable policies

A comprehensive system of social protection and investing in people is at the center of any agenda for inclusive growth

- Greater inequality helps promote economic growth
 - Without opportunity, society's most important resource, its people, do not live up to potential
 - American dream is a myth—life prospects of young Americans more dependent on income and education of their parents than in most other advanced countries
 - Many ways in which inequality is generated—market power and other forms of exploitation—also undermine economic efficiency
- Central message of my book *The Price of Inequality*, but idea has now become widely accepted

Elements of a comprehensive agenda

- Childcare, pre-K, good education for all, including access to universities
- Health care
- Adequate housing
- Safe and healthy jobs—with a better “life-balance”
 - Sick and family leave
 - Availability of jobs for all willing and able to work
- Secure retirement
- Unemployment and disability
- Comprehensive agenda can reduce poverty, insecurity, and increase well being

Multiple approaches to providing good systems of social protection

- Provident Fund: mandatory “savings” account
 - Multiple justifications for mandate
 - Significant advantages in “integrated” approach—rather than standard “siloes” approach
 - Need to have “re-insurance” feature, for individuals with multiple episodes of bad fortune
- Income-contingent loan programs
 - In some areas, like education (Australia), highly successful
 - Proposals for extending, e.g. to education

Mateen, Stiglitz, and Yun, “Income-Contingent Loans As an Unemployment Benefit,” NBER WORKING PAPER 29198 August 2021

Other innovations: the public option

- Providing more choice and enhancing competition with the private sector
 - Driving down prices
 - Developing better “social protection products”—better mortgages
 - One of key ideas in my 2019 book on Progressive Capitalism: *People, Power, and Profits*

Still other innovations: engaging civil society and the not-for-profit sector

- In some countries, not-for-profits play a central role in the provision of social protection
- Traditional system—but in 21st century, we can't *rely* on voluntary behavior for social protection
- But we can still engage with that sector in delivering essential services
 - Lower risk of exploitation—focus not just on “bottom line”
 - Pandemic showed weaknesses in for-profit system of providing care for the aged

Social protection and investing in people are only part of a broader agenda of addressing inequality and promoting inclusive growth

- Need broader investments in the “public good”—basic research and technology (which proved so valuable in pandemic), infrastructure (including public transportation, making cities more livable, addressing climate change)
- Preventing exploitation—creating and abusing market power, exploitation of vulnerable
 - Much of profits generated by rent-seeking activities—and these do not contribute to the general well-being of society; at the core of “market failure,” and why Adam Smith was wrong about the “invisible hand” leading to societal wellbeing
 - Need strong government regulation

Changed perspectives on inequality

- About more than *redistribution*—though that's important
- In some countries, those at the top actually pay a lower share of their income in taxes than those below
- About improving the distribution of *market* incomes (sometimes referred to as pre-distribution)
 - Asset ownership
 - Human capital—good public education
 - Preventing intergenerational transmission of advantage and disadvantage—inheritance taxation
 - Factor returns—wages and returns on capital
 - Importance of labor legislation and corporate governance laws
 - Importance of competition laws

Concluding remarks

- Pandemic has provided a moment of reflection, with insights about our economy and our society
- Have shown glaringly key deficiencies—lack of resilience, high levels of inequality, lack of trust—with long-lasting and deep consequences, unless we begin to address them better
 - All intertwined
- Essential that we have a comprehensive agenda to address inequality
- And doing that will require a comprehensive agenda for social protection
- Great scope for innovation—social innovations are as important as technological innovations
- Can play a central role in increasing social well being