

# I am very pessimistic

## Tagesanzeiger Interview with Nobel laureate Joseph Stiglitz

Nobel Opinion with Nobel laureate Joseph Stiglitz, Professor at Columbia University

### Abstract

In his book *The Price of Inequality* Nobel laureate Josef Stiglitz blames the dominance of politics by the rich. What happened to the motto “one person, one vote”? In an interview with Dieter Bachmann und Valentin Ade from the newspaper Tagesanzeiger, Stiglitz explained that America is very far from that theory today: “Today it is more like ‘one dollar – one vote’. It has been proven true in the past, if you just invest enough money in advertising and media, you can influence people’s views in your favor. The interview was conducted in the course of an UBS Center Opinions event in Zurich in 2014.

**Dieter Bachmann und Valentin Ade, Tagesanzeiger: Mr. Stiglitz, what comes to mind spontaneously when you hear the word “Basel”?**

Joseph Stiglitz: Basel is the place where the global financial system is regulated. Or not.

**You allude to the Bank for International Settlements and the Financial Stability Board, which are based here. Aren't these institutions doing a good job?**

You can't blame these organizations for that; after all, they are primarily concerned with coordination. But I share the opinion of a majority of the U.S. Congress that too little has been done. When you increase a bank's debt, you also increase its risk of collapse. This is a risk that the taxpayer ultimately bears, because banks know that the government will bail them out in an emergency. When it comes to the Basel III capital adequacy regulations, many economists think the rules are not strict enough. The banks, on the other hand, complain that they are too strict.

**Sounds like a good compromise.**

If one side says the sun is purple and the other says the sun is yellow, and then they agree that it is green, that is not a sensible compromise. Risk is shifted to the general public...

**These days, the emerging markets are a cause for concern: By raising interest rates, these countries try to stop the outflow of capital, but in doing so they jeopardize economic growth. The financial markets are unsettled. Will the emerging markets be the next trouble spot for the global financial system?**

This development shows once again how irrational markets sometimes react. The interesting thing is that what is happening now was highly predictable. Sure, the exact timing was not known. But the problems

of these countries already existed when the money flowed into them. Much of that money was ultimately created by the low interest rates from the US Federal Reserve. But it was known that this was a temporary measure and that one day the US Federal Bank would raise interest rates. And yet the markets are now reacting as if it all came as a complete surprise.

**It has now been around seven years since the crisis broke out. At that time, you spoke of a key moment to change the financial system. Has it come to that?**

The sad answer is: No. There were steps in the right direction. For example, we do have more transparency, such as in derivatives trading. But huge volumes of these financial instruments are still traded over the counter.

**Why is this a problem?**

Think of the debt cut for Greece: It was not clear which banks even had credit default insurance for Greek bonds. Even the European Central Bank didn't know where the risks actually lay. How can you have an efficient market when there are question marks to the tune of trillions of dollars?

**You were an identification figure for the “Occupy” movement critical of capitalism – what did this protest actually achieve?**

The movement's merit is that it has made inequality in the USA visible. I was in Davos last week at the WEF, where there was a lot of discussion about inequality as one of the biggest threats to the economy.

**But the demonstrators did not really change anything, did they?**

No, that has to do with a philosophical question. The Occupy movement opposed not only the establishment, but organizations in general. It was afraid of creating a rigid hierarchy itself. But the fact is that you can't achieve social change in an unorganized way.

**You were born in 1942 and grew up in the city of Gary, Indiana. What kind of America was it back then?**

In some ways, we were there at the height of American success. Gary had been founded in 1906 by U. S. Steel, named after the president of the steel company. It was a boom time. And yet it was clear that not everything was good: There was also poverty; I had schoolmates who had no money for school milk. What bothered me most was racial discrimination. We had migrants from the South who had only a modest school education.

**Was the U. S. a better place then than it is now?**

The quarter century after the war was a special period in which we had the highest growth rates. And the lower classes also benefited from growth. We had a president from the Deep South, Lyndon B. Johnson, who gave blacks the right to vote. It was an optimistic moment. Even though we were still a long way from achieving the goals of equality: The political will was there.

**Many also thought they were in such a moment in 2008 when Barack Obama was elected U. S. president. You were an Obama supporter. Are you still today when you look at his balance record?**

There is great disappointment everywhere that this moment was not seized. If we compare the last few years with those after the Great Depression, one must be disappointed. Roosevelt had to fight very hard in the 30s, and he had to make a lot of compromises, and he was also heavily criticized for making a lot of compromises. But in the end, a tremendous success resulted.

**You mean the New Deal?**

Exactly. The establishment of social security systems, the founding of trade unions, the “Glass-Steagall Act” that regulated the banking system. It was a regulatory framework that revolutionized America. And that hasn’t happened in recent years.

**What about Obamacare?**

Obamacare is an achievement. We don’t yet know how successful, because it had to be defended tooth and nail. That means: compromises had to be made.

**Where else has Obama disappointed?**

In the field of banking regulation or when it comes to really doing something about inequality in the country. He was prevented from doing that by the Republicans.

**What will one day be his legacy?**

That stands and falls with the success of Obamacare. I think it will turn out to be the defining moment when America said: The right to access health care is a universal right. But his term will be remembered as a major missed opportunity to really bring about change.

**In your current book, “The Price of Inequality,” you blame the dominance of politics by the rich. We thought that it was still the voters who decided in a democracy – based on the motto “one person, one vote”.**

America is very far from that theory today. Today it is more like “one dollar – one vote”. It has been proven true in the past, if you just invest enough money in advertising and media, you can influence people’s views in your favor. The best example in the US is Fox News, owned by ultraconservative entrepreneur Rupert Murdoch.

**You seem quite frustrated with the American political system.**

It’s not just me. Look at the voter turnout. People believe that it no longer makes a difference whom you vote for.

**This thinking is dangerous and undermines democracy.**

Louis Brandeis, former U. S. Supreme Court Justice, once said: Either you have democracy or you have high levels of inequality, but you can’t have both.

In other words, if you have economic inequality, you have democratic inequality. And that destroys democracy.

**But inequality exists everywhere. Are you saying that democracy no longer works anywhere? Many people in Switzerland would disagree with you.**

There are alternatives, of course. Democracy does not mean voting every two to four years. And it depends on the severity of the inequality. Many European countries, in particular in Scandinavia, have created a system in which they have less economic inequality and thus also less political inequality coupled with good growth rates.

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**A lot of things are wrong, especially in Europe.**

The EU and the Eurozone have three different paths they can take. The first: much more Europe, banking union, fiscal union. There is resistance to this, especially in Germany. The second path: The euro zone breaks apart, i. e., one or more countries leave the monetary union. I always tell my students: Currencies

usually don’t last forever. Currencies come and go. We can introduce a new system. It is thus not the end of the world.

**A Euro 2.0, for example a North and a South Euro?**

Exactly, that would be the second extreme path. But there is a third way in between. You can call it “muddling through” and that is the path that will probably be taken. Europe will do just enough to hold everything together, but not enough to make it work. Spain, for example, has remained in a depression for years with high unemployment, which causes people to leave the country.

**These are gloomy prospects.**

I am very pessimistic. Germany is blocking the only viable solution. And the other two solutions are terrifying. I’m speculating now: In five years from now, when the problems will have been around for a decade, we will see a political leader – a populist or fascist – in one of the European countries who will say: This is not working, we’re leaving the Eurozone. And one can only be concerned about that.

**What is your recipe for Europe?**

A fiscal union, a banking union, a growth strategy. And in the end, Germany wouldn’t have to subsidize the rest of the EU either.

**Do you really believe that?**

If we have this convergence, the interest rates at which Spain can borrow money will fall and confidence in the banking system will return. Spain’s economy would grow again, and the debt could be repaid.

**But doesn’t the huge mountain of debt have to be paid off first for confidence to return to the economy?**

Take America after World War II. National debt was 130 percent of gross domestic product. We didn’t have debt relief, but rather a government – under the Republican Eisenhower – that had

managed to keep interest rates low. This enabled major investments to be made: Everyone received a free college education, and we built a new road system. The feeling solidified: Investing in the USA is a good thing to do. And I hope that this feeling will return to Europe as well.

### Source

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*You can find a recording of Stiglitz' speech and other material on the Center's website: [www.ubscenter.uzh.ch](http://www.ubscenter.uzh.ch)*

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### About the speaker



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