

“The Canadian Inequality Story”: a discussion with Joseph Stiglitz

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The talk had not even started and yet there were no empty seats left in the large lecture theatre, and space in the three observation lounges filling fast. Wanting to learn more about inequality and the ways to fight back against this pervasive phenomenon, more than two hundred people (including students and faculty from many different departments) had gathered for the discussion. With growing concerns about rising levels of inequality and national elections coming up soon in the US and Canada, this was a talk no one wanted to miss. Joseph Stiglitz, Nobel Laureate and Columbia University economist, was to share with us the reasons why the war on inequality should be fought and how to best equip ourselves for the battle.

As we sat attentively, Nicole Fortin, Economics Professor at the Vancouver School of Economics (VSE), introduced our strategic heads for the combat. Joseph Stiglitz was to be accompanied by VSE professors Craig Riddle, Thomas Lemieux and David Green. Riddle was the first of them to step out and acquaint us with our code of action, “Income Inequality: A Canadian Story”. This recent collaborative work from the Institute for Research on Public Policy is a compilation of summaries from some of the most relevant economic and political studies on Canadian inequality. Unlike other academic books, this publication originated in the street protests against income inequalities - in particular against the raising wealth and privileges of the top 1% earners - and made its way to the scholarly world. In an attempt to spread awareness about the Canadian case, the authors, among which are Riddle and Green, provide a comprehensive review of the causes and effects of inequality and the role of policy in mitigating it.

Following Riddle’s introductory remarks, Lemieux highlighted the importance of government policy on reducing income inequalities. Contrary to a mistaken public opinion, he argued, redistributive taxation has helped in diminishing Canada’s Gini coefficient¹ year after year. But even after redistribution efforts, however, Canadian inequality levels have been rising steadily in the past decade.

As we were left wondering why the government has done close to nothing about this growing issue, David Green jumped in to resolve some of our doubts. According to him, the institutional lethargy we are seeing regarding inequality lies on the false belief that nothing can be done about it, as well as the unsustainability of our political rules. Furthermore, Green claims that we are in need of policies that use both theory and data to understand and fight disparities.

¹ The Gini coefficient is an economic measure used to evaluate a country’s level of inequality in a scale from 0 to 1 with 1 being completely unequal to 0 being perfectly equal.

Kindled by Green's drive and ready to jump into the battle camp, we had yet to learn about the roots and history of inequality. And no one else could fill in the gaps better than Stiglitz. Motivated by the arrays of inequalities that surrounded him while growing up in Indiana, USA, Stiglitz has dedicated most of his life to the study of this problem. In particular, he has been researching, teaching and writing about the origins and the possible policy solutions to this mounting issue. After all, he genuinely believes that marginal changes will not succeed in mitigating inequality but market rules are, instead, what we need to examine.

Indeed, Stiglitz claims that inequality is, in fact, a choice. Theoretical economic laws are similar across borders, e.g. the capitalist economy of Canada and the United States, but inequality, he states, is not a result of these laws. Although they do play a part on its development, they are not the main cause of it. Put simply, if capitalist mechanisms were solely to blame for economic disparities we would have a hard time explaining differences in inequality levels across Canada and the United States. The policies we put in place, instead, are the real determinants of inequality and, he argues, we can change this.

Economic Inequality is directly tied to political inequality, and thus, Stiglitz tells us, if we want to preserve democracy we need to tackle income disparities. Currently, for the case of America, and arguably also for Canada, we are doing a terrible job at this. He is in for fighting the war on inequality, because the American government seems to be one of the top 1% earners, by the 1% to the 1%. And, unfortunately, the interest of the wealthiest do not necessary align with that of the bottom or the middle of the spectrum. Indeed, and this could officially be our battle chant, "A system that doesn't deliver fairly and that fails to deliver to the majority of the population is not socially desirable".

Things were not always this way. Historically, productivity levels of workers and their wages used to move simultaneously. It was only in 1980 when, despite productivity figures doubling, workers' salaries stagnated. This coincided with the appearance of new economic ideas, endorsed by the governments of Ronald Reagan in America and Margaret Thatcher in the United Kingdom, which brought in the perception that deregulation and lower taxes for the top earners were to pump economic growth. These policies were thought to be a Pareto Principle improvement, as they would create incentives and thus make the size of the pie bigger. But, as Stiglitz explained, the outcomes had little to do with the expectations. Economic growth actually slowed down after the adoption of these measures and, unsurprisingly, inequality levels grew exponentially. And matters have not gotten any better since then.

To put ideas into numbers: current American minimum wages and median incomes, adjusted for inflation, have stagnated and decreased respectively in comparison to values from 25 years ago. It is not a surprise to anyone then that different social movements, such as "Occupy Wall Street", have started angry protests against the false promises of the unregulated market economy.

Stiglitz's answer to this inequity is clear. There is an urgent need for alternative redistributive policies, "a need to rewrite the rules of the American economy" (and, for that matter, the Canadian economy). To do so he proposes to implement a progressive tax system with higher incidence in land ownership and stricter tax regulation for financial and corporate markets. And a much-needed increase in minimum wages, which he argues (contrary to right wing opinions), have been proved to have no negative impact on unemployment levels.

If any of us at the talk were still unclear about the rationale behind the inequality battle, Stiglitz had yet another card to play. Extreme inequality levels, like the ones we are experiencing in some fields, cost society a great deal. By denying opportunities to a large sector of the population, we are misallocating resources and wasting human potential. And not just in terms of inefficiencies, but also in terms of the economic growth levels equality could foster. Thus, Stiglitz claims, we also need to care about extreme disparities because they are directly scarring our economy.