THE PRICE OF INEQUALITY, by Joseph Stiglitz. New York, NY: W.W. Norton & Company, Inc., 2012. ISBN: 978-0-393-08869-4; 414 pages.

Reviewed by Alexander Binder, University of Missouri-Kansas City

The Price of Inequality, written by "Nobel Prize" Laureate Joseph Stiglitz, provides a passionate explanation of the causes and costs of the burgeoning inequality in the United States and offers a multitude of fixes for what Stiglitz considers a major failure of our political and economic systems. The book is a popular exposé directed toward the average American who is passionate about politics and economics with extensive footnotes for the more adept in economic theory. It also provides a familiar story, as it is an archetypical representation of both American progressive views on politics and New Keynesian views on economics.

Though Stiglitz is not a heterodox economist, a point which I will make more clear later in the review, inequality remains a priority topic among heterodox economists and some of the causes and solutions he offers often mirror those of heterodox economists. For these reasons, it is important to address this book by clearing up confusions and correcting mistakes in order to advance the heterodox understanding of inequality.

Stiglitz wrote *Inequality* amidst the Occupy Wall Street movement and the other progressive movements occurring around the world. He identified three common themes resonating among them during this time of turmoil: 1) markets are not working the way they are supposed to, obtaining neither efficiency nor stability, 2) the political system is failing to correct the market failures, and 3) both the political and economic systems are fundamentally unfair. Indeed, Stiglitz claimed that moral deprivation is to blame for a great deal of the market and political failures causing so much inequality—one might say he blames iniquity for society's inequity. Appealing to the masses, Stiglitz calls for much-needed changes to the economic and political systems in order to save the nation, its democracy, and its sense of identity. Though the picture he paints is bleak, Stiglitz still feels a cause for hope—that there are alternative frameworks that can work for the betterment of the economy and the vast majority of citizens.

Stiglitz first takes us through the state and sources of the great inequality dividing our society. Chief among them he names unemployment, which he proclaims is largely a result of market failure—a common thread running through the book and an identifying feature of his orthodoxy. He blames the "one percent" for shaping policy to suit their ends through regulatory capture, rent seeking, and predatory lending. He also criticizes the safety net in the United States for its weak and depleted state compared to other advanced nations'. The idea of equal opportunity that is supposed to be a cornerstone of our nation is just a myth. He disparages modern corporations, the power and money they give to CEOs, and the general lack of competitiveness in the economy, which helps to prevent the rent seeking so damaging to society. Globalization, labor-saving machinery, and shifting comparative advantages are used to explain the market forces behind inequality. All of these were enabled or aided by trickle-down policies such as free trade agreements, financial liberalization, and union-busting. Weak demand and lax regulation spurred the Fed to set easy money policies which in turn created the dotcom bubble and the housing bubble, adding to market instability and increasing inequality.

Inequality is a problem for Stiglitz because it makes for a less efficient and less productive economy. He indentifies several channels through which this materializes such as lower public investment, less economic mobility, distortions in private rewards and social returns, laws that favor races to the bottom, lack of incentives for workers because of low wages, and other market imperfections. However, Stiglitz seems most concerned that inequality is jeopardizing America's sense of identity—in which fair play, equality of opportunity, and a sense of community are so important—to the extent that our democracy is being put at peril. Here he notes several examples where the current United States government is being run by the wealthy for the wealthy including disenfranchisement of the marginalized and disempowerment of ordinary Americans through the 2010 *Citizens United* decision. Additionally, the rule of law has largely favored the wealthy as exemplified by bankruptcy law, lack of oversight, regulatory capture, and the recent bailouts; it has also affected the government's budget where deficit reduction, austerity, and supply-side ideas dictate taxing and spending policies. Lastly, the non-independent and non-democratic central bank has neglected its dual mandate by focusing almost exclusively on capping inflation, spurring financialization through deregulation, and setting low interest rate policies which favor the rich over the majority of Americans.

To cure the evils of inequality, Stiglitz lays out a broad agenda focused on economic and political reform with many specific ideas to accomplish the task including curbing the financial sector through stricter regulation and oversight, enhancing competition, reforming bankruptcy laws, ending corporate welfare, setting a more progressive tax code, improving access to education, strengthening the social safety net, tempering globalization, restoring and maintaining full employment, supporting collective action, requiring voting, reforming campaign finance laws, and redirecting investment and innovation toward sustainability.

Among the strengths of Stiglitz's book is his awareness that institutions matter. More precisely, his recognition that the economic sphere is not separated from the political sphere and that laws and political power largely shape economic outcomes is a major strength of *Inequality*. He also makes clear that many of these institutions are arbitrary, the situation could be different, and inequality is not an inevitable result of the 'laws of economics.' Indeed, it is when he is writing on these subjects that he most sounds like a heterodox economist.

However, there are several instances where Stiglitz cannot seem to shake his orthodoxy. He may be among the most heterodox orthodox economists in America because of his belief in the great extent of 'market failures.' However, by doing so he still clings to the ideal outcomes of the competitive market as if something could be done to reach that ideal. This perspective shines most brightly in his explications on rent seeking and monopoly power. In these sections, he sounds not all too unlike his political opponent Milton Friedman with the only difference being their respective beliefs in the extent of market frictions. In contrast, heterodox economists have long rejected the neoclassical model of 'perfect competition' as it is incoherent and, thus, have rejected the supposed favorable results the model produces (Lee and Keen 2004).

He also attributes much of the housing bubble and overall financialization of the economy to the low interest rate policy of the Fed, which is giving it too much credit. New Keynesians typically argue that monetary policy is only ineffective in a liquidity trap, but Post Keynesians and the endogenous money approach have argued, with supporting evidence, that interest rate policy is generally ineffective at controlling the money supply in either direction—curbing or stimulating its growth—in any situation. Instead, they argue that the natural or normal rate of interest is zero (Forstater and Mosler 2005) and that regulatory oversight is needed to curb risky and fraudulent banking practices from cumulating into a bubble and financial crisis. Stiglitz recognizes this factor but places more significance on the interest rate policy.

Furthermore, Stiglitz places himself squarely among the deficit doves who argue for the need to reduce the fiscal deficit, not through direct austerity or deficit reduction as do the deficit hawks, but through economic growth via fiscal policy geared toward the lower and middle classes. Though he understands better than most orthodox economists the fiscal and monetary operations of the United States government, he fails to complete the leap to Abba Lerner's Functional Finance approach where the size of the deficit does not matter directly, but indirectly through its impact on the true economic variables of concern such as employment and inflation—the position of the deficit owls or Modern Monetary theorists (Bell 1999).

Finally, perhaps because Stiglitz is addressing the general population, *Inequality* remains a rather shallow or surface level analysis of the causes and effects of inequality. Stiglitz is primarily concerned with inequality of wealth and income and to some degree inequality of power, but he does not discuss other forms of inequality (racism, sexism, etc.) much if at all nor the deeper underlying systems of exploitation that are treated extensively in Marxism and Institutionalism and which are largely ignored by most mainstream economists (Dugger 1998).

Despite these weaknesses, *The Price of Inequality* provides an excellent overview of the enormous inequality in the United States as it is interesting, relevant, and accessible to the majority of the population. Though Stiglitz largely remains an orthodox economist, this book bridges the gap in significant ways by recognizing the importance of institutions and power in the war of ideas and the shaping of public policy. *Inequality* could be utilized as gateway for readers, including perhaps students in intermediate level courses on political economy, to more heterodox views of the causes of and solutions to inequality.

References

Bell, Stephanie. "Functional Finance: What, Why, and How?" Levy Working Paper No. 287 (November 1999). Available at http://www.levyinstitute.org/pubs/wp287.pdf. Accessed February 26, 2014.

Dugger, William. "Against Inequality," *Journal of Economic Issues*, 32 (June 1998): 287-303.

Forstater, Mathew, and Mosler, Warren. "The Natural Rate of Interest is Zero," *Journal of Economic Issues*, 39 (June 2005): 535-542.

Lee, Frederic, and Keen, Steve. "The Incoherent Emperor: A Heterodox Critique of Neoclassical Microeconomic Theory," *Review of Social Economy*, 62 (June 2004): 169-199. http://www.levyinstitute.org/pubs/wp287.pdf