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**Ángel Gurría** is Secretary-General of the Organisation for Economic Co-operation and Development (OECD). He has firmly established the Organisation as a pillar of the global economic governance architecture and a reference point in the design and implementation of better policies for better lives. He has also heralded a new growth narrative that focuses on the well-being of people, paying special attention to gender and youth.

*Moderator Esther-Mirjam Sent*

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# Fellow travellers in a quest to improve lives through better policies

*A conversation between  
Joseph E. Stiglitz and Ángel Gurría  
in memory of Jan Tinbergen*

“**N**ormally in Japanese protocol, you bow according to the importance of your interlocutor. In my case, I could not bow any further because of my age, but actually my forehead should be touching the ground.”

As Ángel Gurría, Secretary-General of the OECD, enters the room in the Château de la Muette at the OECD headquarters in Paris, he expresses his appreciation of professor Joseph Stiglitz. The two men know each other partly because the Nobel laureate co-chairs the OECD-hosted High-Level Expert Group on the Measurement of Economic Performance and Social Progress.

Today, the men seem to have a lot in common. They are both concerned about inequality and poverty, and both connect academia with policy. The way they do their work is rather different though. While Gurría and his staff provide policy recommendations directly to governments, Stiglitz relies on his academic status and his power of persuasion in presenting his view to a wider audience.

## *Nobel laureates meet policy makers*

Their career paths are also quite distinct. Before becoming head of the OECD, Gurría had a career as a public administrator and politician in Mexico, his country of origin. He has always been on the practitioners' side. "It basically means being connected with government and solving practical issues every day."

**Stiglitz:** "My own story is a little bit different. I began in physics and mathematics and it was my concern about social and economic problems that brought me to economics. Basically, it was my concern about inequality that led me to become an economist; and also my concern about unemployment, about discrimination and about economic volatility."

*Sent: "The topic of inequality has stayed with you your entire career."*

**Stiglitz:** "At the time, I thought things were bad. But after I started studying them, inequality got really, really bad – so I stuck with the topic. Over the last ten years I have returned to it with a lot more gusto because the problem has gotten so much worse."

*Sent: "How does the OECD regard poverty?"*

**Gurría:** "Poverty can be seen as one manifestation of inequality, defined in developed economies as an income below fifty percent of the median income or something similar. It is in this group, that crises have the most impact and the question of inequality keeps cropping up.

Over the years, the topic has been getting more and more attention. The titles of the main OECD publications on the subject provide a clear pattern. In 2008 we published *Growing unequal?* In 2011, we unfortunately erased the question mark and published *Divided we stand*, as the inequalities were getting bigger. By then, we were able to see the impact of the first years of the crisis.

Having established the fact that inequalities were on the rise, we published the third book in this series called *In it together*, in which we traced the origins of inequalities and poverty to mostly the labour market. And finally, last year, *A broken social elevator?* came out, which highlights social mobility or the lack thereof.

The fact that we are talking about poverty means that people are failing to escape. It means that those who were neediest and most vulnerable stayed needy and vulnerable. It means that inequalities cluster and become obstacles to growth. When inequalities become so important that they affect the ability to actually have and then take advantage of the opportunities themselves, they become inherent. Then, even if you provide people with the same opportunities, they will take advantage of them in different ways. This has an impact on growth as well. Health, educational levels and skills – they all have an effect on productivity.

The great challenge is how to break through the impact of family background on the performance of the next generation. We have not been very successful at that. In fact, we seem to have given up.

The issues go further than the poor in our societies. The numbers in *Under pressure: the squeezed middle class* suggest that often so-called middle class is about three months away from falling below the poverty line. This is a vulnerability we never saw before.

This vulnerability comes with a practically level wage growth over the past years and rising costs making it harder to remain in the middle class. Things that make you middle class or prevent you from being poor, like housing, education and health care, become more expensive relative to wages. This also goes for entertainment and food, and the result is another squeeze. You either move into poverty or hang onto the middle class by your fingernails.”

**Stiglitz:** “There is a very strong moral argument about inequality being wrong, which I think is very deeply rooted in our value system. But the perspective is on the rise that inequality is not only morally wrong, but also has adverse effects on our economy. In addition, it is dividing our societies and changing the nature of who we are as a people and as a society.

There is actually research in behavioural economics that deals with diverging societies where those at the top become different from those at the bottom. These developments are really changing the nature of our society. It is dividing us and our politics in a way which undermines what we thought of as ‘our deep-rooted values’. As a result, the argument that we ought to be doing something about it has now become very compelling.”

*Sent: "Could it be that economists have been too enthusiastic about efficiency, about people maximising their utility and firms maximising their profits?"*

**Stiglitz:** "Other economists', as I like to call them, have played a very significant role in the increase of inequality in three ways. One way is neglect. The standard model of macroeconomics is the representative agent model, which says inequality is not important. It does not have any effect. But that is just wrong. Hence, it was this model that turned attention away from inequality. Secondly, for some it was worse than inattention. It was hostility. Bob Lucas famously said during his 1997 Kuznets Lectures that the most poisonous subject for economists to talk about was inequality. He was not only ignoring it, but actively saying economists should not talk about it.

Then the third way is actually a belief related to the second, that if you just kept on growing everybody would be better off. This is the so-called 'trickle-down doctrine', for which there never had been any evidence, though in fact we now have evidence against it.

These arguments illustrate the misuse of economics, as economic theory has always made it clear that trickle-down economics might not be true. One of the most famous examples of this is the Stolper-Samuelson theorem that opening up trade might make the country better off, but would leave workers in the advanced countries worse off. I consider Paul Samuelson one of the most brilliant Nobel Prize winners.

However, if you do not understand the theorem, perhaps because the mathematics are too difficult, you can still grasp the logic. If you trade with a less developed country, you import unskilled labour-intensive goods, and that reduces the demand for unskilled labour. Which then in turn reduces the real wages of unskilled labour in your own country.

To me, this misuse of economics can be traced to Milton Friedman and the Chicago School, who were trying to sell us their right-wing political agenda. For instance, they were saying, under the guise of economics, 'do not worry about inequality' when economics was actually saying 'do worry about it and do so now'. Let me give you another example. The Chicago School said shareholder capitalism would lead to greater efficiency. However, I have proven with Sandy Grossman that shareholder capitalism does not lead to the well-being of society."

*Sent: "To which economists does the OECD listen?"*

**Gurría:** "We have something called NAEC, new approaches to economic challenges. Within NAEC, we bring people like Joe [Stiglitz, *ed.*] together with practitioners in other disciplines, and we ask them to come up with policy recommendations.

*Sent: "But what Professor Stiglitz points out is that sometimes academics are activists instead of scholars. How would you identify the activist?"*

**Gurría:** "Basically, I would say advocacy is legitimate because people cannot be neutral about everything. In fact, if they were neutral about everything they would probably be dead, because to be alive means to feel something and also to think. I want academics to think and conclude that one thing is better than its alternative.

But what you cannot do, is to abuse the discipline of economics and try to justify what is in fact ideological. You have to be careful. As soon as you paint your conviction with some coating of science in order to make it more credible, you might be harming millions of people.

Public policies influence the lives of millions and millions of people, who suffer the consequences if you get it wrong or who benefit if you get it right. And getting it right depends on evidence. This is where academia comes in, to join forces with institutions like OECD. Evidence is crucial even in times of fake news. Was it Al Gore, who said 'denial is not a river in Egypt?'"

*Sent: "It was a Saturday Night Live thing, I think. But how do you maintain your neutrality?"*

**Gurría:** "No, we are not neutral, we are objective! We are evidence-based. At an institution like the OECD, you have to leave a lot of the emotional baggage behind you, because being objective and looking at evidence becomes crucial. The fact that being objective is paramount does not mean that you do not prefer or even recommend one particular course of action over the other. I think Jan Tinbergen was a very good example of somebody who was both objective and influential.

But the world has changed so much since then. The mess that we are in now! It took nine months to form a government in the Czech Republic, seven months to form a government in the Netherlands. Our friend Mark Rutte had a coalition of two parties with a ten-seat majority. Now he has a coalition of four parties with a one-seat majority.

Boris Johnson just lost his conservative majority because one guy crossed the aisle, regardless of Brexit or no Brexit. In Italy we just saw the recomposition of government, in Spain there is enormous fragmentation. And then if you go to Sweden of all places – Sweden being a most egalitarian place – they have forty percent of the votes on one side, forty percent on the other, and twenty percent right in the middle which are the extreme right-wing. So, then you go to Finland and then you go to Estonia and then you go to less known cases.

All these cases everywhere are united by a single thread. People are extremely disillusioned. That is a serious challenge.”

*Sent: “How do you, Professor Stiglitz, manage the challenge of balancing between objectivity and influence?”*

**Stiglitz:** “First, I would like to praise what the OECD has been doing, because many economists study their own countries. In doing so, we tend to miss out on common trends. The OECD was founded to understand these trends, to be a think tank for the advanced economies.

One of the things it has done, which is particularly important, is gathering and standardizing data. Most academics use data, but they do not have the resources to gather and standardize these.

For instance, when we talk about inequalities, we sometimes tend to focus just on income. However, it actually has many other dimensions too. And with the OECD data, we become aware of them. The data enable us to identify where the problems are most acute, and to begin the process of analysing the causes and consequences.

And this is where academics play an important role, in the analysis of mechanisms. Take, for example, the role of demographics, the changing family structure, which is something the OECD has pointed out. Academics, in turn, study the causes and consequences.

Having said that, interpreting the facts is not always easy. The world is too complex, you have to make decisions about what pieces of evidence are critical. So, one of the things that often has disturbed me is that various institutions make claims—based on what they call evidence-based research -- that I think are just wrong.

At one point, some claimed that ‘evidence-based research’ said that private schools were better than public schools. This is research by people wearing what I would call ‘ideological blinders.’ As more and better data accumulated, it became clear that that claim could not be supported. One has to be careful with the data that one looks at; and data seldom speaks to the critical issues by itself. We need theoretical lenses to understand and interpret.

Similarly, at some point central banks all over the world said that financial deregulation would be a good thing. They argued that it was ‘evidence-based.’ Since the 2008 crisis, it is widely understood that financial deregulation can lead to instability.”

**Gurría:** “And that blew up in our face.”

**Stiglitz:** “I have watched this process over and over again. In my opinion, institutions and their professional civil servants should help create stability. At the same time, they should be listening to academics. An institution I was very critical of was the IMF. Academics kept pointing out where their assumptions went wrong and where the policies they were pushing had adverse effects.

It took years, but eventually there was a change. Dominique Strauss-Kahn slowly changed the way the IMF looked at the world, and later Christine Lagarde continued on that path. In the end though, a particular event – the end of the world, as the IMF saw it – helped probably just as much as these individuals did.

Thus, as inequality grew and as the financial crisis spread around the world, the IMF shifted its position on capital controls and the importance of inequality. When there is enough evidence against a position, eventually our societies typically do move. Take Lucas’s position that inequality is not that important. You will not find a lot of people agreeing with that today.”



**Gurría:** “The title of the G7 was *Inequality*. Not everybody was equally enthusiastic about that one, but yes that was the title.”

*Sent:* “Going back to Tinbergen, he was the first director of the CPB, the Netherlands Bureau for Economic Policy Analysis. And he developed the so-called Tinbergen rule, the idea that if you have a big econometric model you need the same number of instruments as you have goals. Is this insight of Tinbergen still relevant today?”

**Stiglitz:** “Tinbergen made an analytic point, so I do not want to say that he was wrong – but he *was* wrong! Tinbergen’s rule is not generally applicable once you incorporate uncertainty in a *richer* way, because in a richer model you can never have as many instruments as you have objectives. If you are trying to change probability distributions, you have so many parameters. This conclusion is reinforced, once one takes into account the additional layer of complexity added by climate change and inequality.

And even if you are doing monetary and fiscal policy, and are aiming for stable inflation and low unemployment, you must now recognize that coordination between monetary and fiscal policy is necessary to achieve both. If monetary policy just focuses on inflation, it imposes enormous risks upon the workers.

But more importantly, we need to acknowledge that the world is more complex in a number of other ways, and that we are inevitably going to have insufficient instruments to do all the things we want to do. We are constantly making trade-offs, which inevitably involve judgments and values.”

**Gurría:** “Tinbergen did not have the capacity to understand the trade-offs or have a model that would provide multiple elements or multiple inputs, because this was a time in which we used punch cards to model the whole world. The amount of information and number-crunching capacity that you have today makes it possible to analyse a lot more.

And these analyses give you many policy targets as well. We simply do not have that many instruments. We never had. We have monetary policy ...”

**Stiglitz:** “Which is not working very well.”

**Gurría:** “... and we have fiscal policy, which is constrained for a number of reasons. More important than the uncertainty in itself, which Joe already mentioned, is the complexity. Fifty years ago, the instruments that you could use were predetermined. Today you have the possibility to go much deeper and find a specific combination of instruments that might help to achieve policy objectives. We can then analyse this in more detail.”

**Stiglitz:** “This touches on a controversy that Tinbergen had with Keynes. Keynes was very sensitive about some of the econometric difficulties which Tinbergen skipped over. Let me mention one that is particularly relevant today, which we would call non-stationarity. Keynes grasped that the world was changing sufficiently rapidly that one would never be able to get the data for doing econometrics with the confidence that macroeconomists would like to have. This is what we saw in the run-up to the 2008 crisis. Those in the financial markets and those in the central banks were saying: ‘we are in a new economy’. Yet, they were using data as if it were the same economy. They said: ‘do not worry, we have now solved the business cycle’, just as we were building up the conditions for the greatest crisis since the Great Depression. Keynes would have said ‘yes, that is exactly what I would have told you and warned you about’. Tinbergen was not as sensitive to those issues, I think. Another example is provided by the school of people who believe in rational expectations, with the full and efficient utilisation of past data. Well, a very big thing going into these models is the assumption that our climate is not changing. But now we know our climate is changing. What we do not know is how fast it is changing and how it will affect our societies. And that is what we would call, to use a technical term a ‘non-stationary process.’”

*Sent: “Some economists rely on stationarity to make predictions, and some economists, such as Professor Stiglitz, stress the importance of non-stationarity. How do you traverse this complex academic landscape, Mr. Gurría?”*

**Gurría:** “It helps if you understand how the OECD is structured. In the OECD, we have a part that is a ‘sausage factory’, which produces our flagship publications. Everybody is eager for them, even in order to criticize them, but they are all waiting for it.

## *Nobel laureates meet policy makers*

These publications are based on one hundred and fifty structures called committees, subcommittees and working groups who are specialised in one or two single issues. For example, in education we have early childhood, vocational training et cetera. These committees provide in-depth expertise on each topic. We put these different sources of information together and look at the policy interaction, we break down the silos in our flagship publications. We should be doing more of that, but *Going for growth* is our greatest effort in that domain. There we try to put forward five basic recommendations for each country every year.

In addition to the sausage factory, we have a *boutique element*. This brings in new and different perspectives, probably on how we are going to shape the sausages in five or fifteen years' time."

*Sent:* "Would this include your base erosion and profit-shifting project?"

**Gurría:** "Let me tell you about the exciting things that are happening. Today, we have a meeting with the steering group of what we call the inclusive framework. That involves one hundred and thirty countries getting together in order to launch the *home stretch* of digital taxation.

Today, hundreds of countries within a network are already automatically exchanging full information on 47 million bank accounts. All this is worth five trillion dollars, one third the size of the US economy. Only a few years ago, governments needed a specific request which had to be accompanied by evidence of any wrongdoing, and then in many cases they still got very little information from the bank because it was in a tax haven."

**Gurría pointing at Stiglitz:** "This gentleman here has kept us on our feet for the last five years, because he has been very critical of it."

**Stiglitz:** "I am just very supportive of the work ..."

*Sent:* "But?"

**Stiglitz:** "But it has not gone far enough. The OECD is a political institution. It is a think tank formed by the advanced countries. And quite frankly,

the problem is the United States. The digital companies in the US make a lot of profits, are very happy not paying taxes, and use their political influence to further that objective. Did you know that Apple pays 0.2 percent of its profits in taxes in Ireland?”

**Gurría:** “Ah, the famous case of Apple.”

**Stiglitz:** “But Google is no different. When Apple got criticised in Ireland, they moved to Jersey. That tells you three things about Apple. It is committed to tax avoidance. It does so with the same ingenuity with which it makes products that people like. And it uses its political influence. But primarily they are not concerned with what would be good for the global community. What would be fair for developing versus developed countries? They are just looking at how they can ensure that they are not paying taxes.”

**Stiglitz turns to Gurría:** “I view our role as complementary. I hope you appreciate it.”

**Gurría:** “Oh, absolutely ... It is people like Joe who are constantly reminding us how far we could go if there would be a political will.

Joe talks about companies that are using the system to lower their tax rate dramatically or not to pay taxes in practice. What is happening now is that this has become political. The working person, the middle class, is no longer willing to see richer people taking money out of the system in this way. They say ‘¡Basta!’.

Fortunately, we are very close to reaching what I would call an international agreement on a criterion for taxing digital activities. It could be passed within a few months or perhaps a year, and if it does there will be a level playing field.”