For those who have read Joseph Stiglitz’ previous popular works, *The Price of Inequality* is similar in that there is much to love and much to dislike. While this book, like much of Stiglitz’ other work, has received generally positive reviews, it is not unreasonable to feel frustrated at the lack of nuance and the frequent off-the-cuff remarks that would not make it through editing if this were published as a more academic piece. With this being said, there is also plenty to like, and much that should garner universal agreement. Because of the non-linear mixture of different qualities of argument, *The Price of Inequality* should be picked apart carefully, not just to marginalize the bad, but to make sure that one digests the various worthwhile and prescient points made.

Before looking at the book, we should understand the importance and relevance of studying economic inequality. It is important to acknowledge that not all inequality is “bad,” and that even the most ideal of markets will have some degree of inequality — something that Stiglitz is in agreement with (Stiglitz 2012, 6). As Mises wrote, “The inequality of individuals with regard to wealth and income is an essential feature of the market economy” (Mises 1998, 285). Not only would a reduction of all inequality imply a non-free society, but it would make its standard of living collapse under the pressure of resulting resource misallocation.

Parting with Stiglitz, inequality should not be reduced for the sake of reducing inequality, but for the sake of improving the institutions that partly influence and decide the allocation of resources. Seen in this light, some inequality is a symptom of larger problems. Looking at inequality helps us pinpoint what these problems are and better understand their nature and consequences. While one gets the sense that Stiglitz does not entirely accept, or understand, the distinction between inequality as a central feature and inequality as a symptom of larger issues, some of his insights are undeniably helpful towards developing a better grasp of many of the institutional faults of the current system. These, as the most important aspect of the book, will receive their due weight here.

Some of Stiglitz’ other contributions to the study of inequality are less helpful, and even incredibly harmful. These negative qualities are explained in much more depth below, but they can be split between two categories: bad and ugly. The dramatic rhetoric aside, under “bad” falls issues where there is much to disagree with, but where Stiglitz fails to mention some of the better arguments, with extensive supporting literature, made against several of his ideas. The “ugly” category is much worse, and it is mainly composed of all-too-frequent demonization of those who disagree with Stiglitz, to the point that the author subtly advances the accusation that those who disagree are intellectually dishonest, or are suffering from “cognitive capture” (Stiglitz 2012, 48). While Stiglitz’ better arguments are worth emphasizing, some the book’s worst vices need combating. This review serves as a centrifuge, sorting the good from the bad.

**The Good**

Two facets of inequality, discussed by Stiglitz, deserve mention: that caused by rent seeking and that caused by inadequate
financial institutions. Both of these make up the bulk of Stiglitz’ case, and generally he is quite right in showcasing these two concepts as important culprits in causing inequality that would otherwise not exist.

Rent seeking is given its own chapter in *The Price of Inequality*, and according to Stiglitz plays one of the most important roles in determining the misallocation of income and the resulting inequality (Stiglitz 2012, 39–51, 107). Rent seeking refers to collusion between private actors and, usually, government, where the outcome involves the latter granting the former a privilege that is otherwise inaccessible. An alternative way of describing rent seeking is as a “loophole” of sorts in the institutional framework that guides choice in the market place. Certain institutions help align private interests with “social interests” by restricting choice; rent seeking represents a circumvention of these restrictions by using the state’s special role — as a monopoly on violence — as a means of securing benefits.

Several examples of rent seeking and the benefits sought are given: monopoly rents, government subsidies and corporate welfare, patent rights, et cetera. Rent seeking can also result in adverse regulation that targets certain firms, but not others (usually the rent seekers), eroding competition. Stiglitz also mentions rent seeking which takes place solely in the market, including things like fraud and the use of market power to extract rents — while Stiglitz goes too far with the latter,¹ it remains true that rent seeking can also help individuals and firms to circumvent the law (which is part of the aforementioned institutional framework). All these benefits are secured at the expense of others, with the implication of a different distribution of income from that which would have arisen without rent seeking.

A caveat to Stiglitz’ discussion is that rent seeking is a response to imposed constraints. Oftentimes these constraints are imposed through legislation, themselves the product of rent seeking or decision making that is not itself constrained by the same institutional framework.² Sometimes rent seeking is a defense mechanism that firms use to oppose regulations. Even if we assume that some regulation is ideal, it does not follow that all regulation is ideal, giving the resulting rent seeking some sense of legitimacy. As such, while rent seeking may be used as a means of distorting markets — as it often is —, it also can be used as a way of protecting markets from the predation of the state. Either way, the problem is with government using its power to enforce rules which would otherwise not develop through private institutional change.

The second major thrust of Stiglitz’ analysis is towards the financial sector. Like with his discussion of rent seeking, there is a mixture of good and bad. While some of Stiglitz’ more specific remarks will be scrutinized in the following sections, he gets

¹ “Market power” is a feature of any market that is not “perfectly competitive,” which includes virtually all real world markets. Market power is gradually lost as markets become more competitive. The propensity for competition depends on the set of institutions and informal constraints which guide choice, namely how flexible these institutions and rules are with allowing change. Increasing market power is notoriously difficult in the market — the capacity of unaided firms to form oligopolies or monopolies has been heatedly debated. Much more

² The range of choices available to politicians is different from that available to individuals operating in the market process. Indeed, politics is characterized by its lack of competition. One would think that the problem of “power” is much greater in the context of the state rather than that of the market.
the overall picture more-or-less right. It is a point well worth repeating: given the current institutional framework, the banking sector helps create inequality that should not exist. Further, the relationship is not only direct, but indirect as well through the effects of the business cycle. It is difficult not to agree with Stiglitz that the financial sector is in desperate need of greater competition (Stiglitz 2012, 46–47, 246–247), even if some of his more specific recommendations are far more disagreeable.

Stiglitz rightly notes that financial liberalization during the 1970s and 80s created an environment ripe for financial instability (Stiglitz 2012, 89–92). While he incorrectly pinpoints why “deregulation” proved unstable (something we will return to), it is nevertheless true that natural outgrowths of our current financial institutions are excessive leverage and industrial fluctuations. The core issue is not with reckless lending, it is the current system of monopolized currency issue and cartelized banking. Without competitive currency issue, the market is denied a major avenue of discipline (the note clearing mechanism), allowing for concerted credit expansion (Selgin 1988, 96). This leads to the associated micro and macroeconomic consequences: relative price changes not in accordance with social preferences, ultimately leading to the business cycle.

How does “financialization” cause unnecessary inequality? Credit based expenditure makes borrowers debtors, representing a transfer of income from debtors to creditors. This transfer is not necessarily inequality inducing, since generally the borrower gets something in return (whatever she purchased with the borrowed credit). However, economic booms associated with excess note issue — bank notes are a form of debt (Gorton 2012, 5–6), implying that excess note issue is synonymous with excess leverage — are characterized by rising asset prices, including that of housing. The run up in housing prices during the 1990s and first decade of the 21st century was unique in magnitude, but not as a trend (Reinhart and Rogoff 2009, 207, 279–281). Those who buy these assets by accumulating debt are particularly vulnerable to the consequent deflation of mispriced assets and durable goods; when housing prices collapsed, creditors tended to enjoy income corresponding to inflated prices, while debtors were burdened with disinflated assets and savings. As Stiglitz notes, a major culprit behind the asymmetric impact of the financial crisis is current bankruptcy law: while large firms are usually afforded some leniency when declaring bankruptcy, unable mortgage owners were not allowed the same luxury (Stiglitz 2012, 193–195).

Besides the two major forces of rent seeking and financialization, there are some other points made in the book that deserve brief mention. Stiglitz (2012, 59–60) argues that globalization has allowed some firms to invest in foreign countries as a means of securing rents by exploiting weak political institutions abroad. This may be true, but one should weigh the benefits to foreign labor of increased investment and, consequently, wages. Benefits or not, it is not clear that the United States should expend resources making up for foreign problems — not just because of the cost, but because of the ample theoretical and empirical evidence which argues that such efforts are misguided and subject to failure, because we simply cannot.

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3 Interestingly, unconstrained support for greater competition in banking has not always been Stiglitz’ preferred recommendation. He has previously supported disallowing franchise value, or the “capitalized value of expected future profits” (Hellmann, Murdock and Stiglitz 2000, 148), to fall, under the assumption that too low a franchise value can lead to reckless creditor behavior and instability. Franchise value is reduced through competition, meaning that methods to increase franchise value necessitate restraining competition.
socially engineer “efficient” institutional frameworks. Many of Stiglitz’ other concerns on globalization are misplaced. He laments the loss of jobs and lowering wages, but the pie is not fixed: there exists a fundamental scarcity of labor (Reisman 1990, 59–61), meaning that those unemployed as a result of globalization can be reallocated towards alternative productive activities. Further, Stiglitz fails to consider the benefits of falling prices of goods, which make consumers better off as a result of rising real wages. Of course, there are always winners and losers, but slowing the pace of the integration of the global division of labor will make everyone worse off in the long run.4

The Bad

Many of the disagreements with Stiglitz are predictable, given ideological differences, but there are statements and arguments throughout the book which are particularly egregious.

The clearest example is Stiglitz’ case in favor of a “democratically accountable” central bank, where he questions the benefits of a politically independent Federal Reserve (Stiglitz 2012, 248–256). Nevermind that non-independent central banks are associated with high inflation, brought about by seigniorage (Reinhart and Rogoff 2009, 187). The error is more fundamental: whether run by technocrats or “the masses,” there is simply a lack of knowledge to centrally plan monetary policy. While “cognitive capture” may have something to do with inadequate performance, the more important handicap is the fact that the division of labor is far too complicated for any one person — or even a group of people acting in concert — to understand well enough, especially when one’s understanding must be interpreted through likely, at least partially, erroneous heuristics. (Friedman 2005, 9–11, 21–25). The relative rigidities of selection in the democratic process does not provide the same quality of “accountability” that the market process provides.5 A much better solution is to allow “monetary policy” to be decided by the competitive (therefore flexible) market.

Some of Stiglitz’ statements are at odds with the literature and the evidence. For example, he frequently repeats the claim that the 2007–09 financial crisis was caused by reckless lending, with the implication that banks knew the outcome of their collective actions. Stiglitz fails to differentiate between investment and commercial banks, misleading his readers to believe that the large banks that were bailed out during the crisis were the same banks making the original loans. This is a kind of moral hazard argument, and it simply does not stack up when weighed against the evidence (Friedman and Kraus 2011, 36–42). What is more, Stiglitz does not even bother to mention the evidence, whether for him or against him.6 One can hold the banks responsible for the crisis without resorting to arguments that have little empirical substance to them.


5 One explanation is that markets, as flexible institutions, have developed proxies, over time, to cope with radical ignorance (the unknown unknown). One example are money prices, that helps market agents coordinate, despite them not knowing the intentions or plans behind other peoples’ actions (Friedman 2005, 27–28).

6 Notable work which argues against the thesis that bankers were intentionally investing in highly risky assets, because of bad incentives, include Fahlenbrach and Stulz (2011), Acrey, McCumber, and Nguyen (2011), and Murphy (forthcoming). One oft-cited defense of the argument is provided by Bebchuk, Cohen, and Spammann (2009); see Friedman and Kraus (2011, 157–162) for a critical review of some of the literature.
In a similar situation is Stiglitz’ advocacy of higher marginal tax rates on upper quintile incomes. Here, Stiglitz does cite favorable work, including Diamond and Saez (2011) and Piketty, Saez, and Stantcheva (2011). Both these studies decide “optimal tax rates” by looking at different elasticities, including the elasticity of labor supply and the elasticity of expenditure. But, these analyses can be narrow. For example, suppose a study concludes that the rate of change of investment is much slower than the rate of change of income, where the difference is either consumed or saved. Is this evidence that we should redistribute said income? One can frame the question within the context of the market process: if financial intermediation is seen as a mechanism of distribution, the distribution of savings to other investors is preferable to the distribution of savings by the government, for all the reasons outlined in Finegold (2011). Whatever the merits of these studies, it should be recognized that their limits are bounded by the authors’ ignorance of social complexity — an ignorance that all fallible beings suffer from. Models which focus on certain effects will miss other effects, including those which directly and indirectly affect the ones the authors look at.

There are less controversial and more direct recommendations that have similar effects. Perhaps Stiglitz does not recognize these because he is too focused on income inequality as a cause, rather than a symptom. One of the concerns of Piketty, Saez, and Stantcheva (2011) is that high incomes are often not aligned with “social interests,” referring to things like CEO pay to CEO’s who, intentionally or unintentionally, contributed to the financial crisis. Perhaps rather than a higher tax rate, which punishes both successful and unsuccessful entrepreneurs, a better policy would be to reduce the amount of distortions on the market’s institutional framework, reducing the probability of systemic entrepreneurial failure.

While the literature on tax policy is undoubtedly more complicated than what this review may suggest, it nevertheless is true that Stiglitz pays little consideration to alternative and opposing arguments.

There is also a more general argument to be made to the detriment of The Price of Inequality. It would not be inaccurate to describe the book as a collection of arguments meant to barrage the reader with as many causes of inequality as possible. Stiglitz (2012, 79–81) does explicitly explain his rationale, asserting that “much of the debate is beside the point.” His rationale is that inequality “cannot be ignored” and that whatever policy can reduce inequality is a policy that should be implemented. First, this is at odds with his above cited concession that some inequality is inevitable, and even necessary. Second, to dismiss the importance of weighing relevance on account on the difficulty of doing as such is to hand wave away a critical problem. If you do not know to what extent your theory is applicable, or whether it is even accurate, how can you recommend it? This alone should be cause for concern. If you cannot “test” the relevance of a particular theory, how can you pretend to know the effects of a policy recommendation? Stiglitz’ methodological sloppiness seriously damages his and the book’s credibility.

The Ugly

The examples of “the bad” in Stiglitz’ book is not the worst of it. There is a clear lack of academic neutrality, which would be fine if the author at least hinted at valuable dissenting opinions. Not only does Stiglitz not do this, but he essentially characterizes those he disagrees with as either corrupt or intellectually dishonest. He does not offer the “other side(s)” a chance, ultimately making Stiglitz a perpetrator of the same fraud he accuses his opponents of.

For example, an entire chapter, titled “1984 Is Upon Us,” is dedicated to explaining
how right-wing ideologues shape common perception and opinion, accusing, in essence, “right-wing ideologues” of brainwashing society — as if people of other ideologies do not use the same tactics that Stiglitz accuses his ideological adversaries of. Sometimes Stiglitz is quite explicit,

The fact that the 1 percent has so successfully shaped public perception testifies to the malleability of beliefs. When others engage in it, we call it “brainwashing” and “propaganda” (Stiglitz 2012, 146)

In the book, the terms “1 percent” and “the right” are almost perfect substitutes. Consider, for instance, the following

The Right has recognized the importance of education in shaping perceptions, which is why it has been active in trying to influence the design of curricula in schools and embarked on an “education” program to make judges more “economic literate,” that is, to see the world through the narrow lens of conservative economics (Stiglitz 2012, 161).

Stiglitz makes this point after invoking some insights from psychology and cognitive science which help explain how individuals form ideas and beliefs. To a considerable extent, these insights are true, and some of Stiglitz’ conclusions do follow: specifically, yes, people can influence others. But, it is disingenuous to rant about how “The Right” does this without acknowledging that everyone else does as well. Indeed, Stiglitz’ The Price of Inequality is an attempt to shape readers’ beliefs. Should Stiglitz be targeted with the same disparaging accusations? Stiglitz goes on to claim that much of “the battle of ideas” is intellectually corrupt (Stiglitz 2012, 161–162) — surely this applies to all sides of the political spectrum?

Later in the same chapter, Stiglitz (2012, 172) downplays academic dissonance by discrediting dissenters: “It is an ideological battle, because economic science — both theory and history — provides a quite nuanced set of answers.” The implication is that economic science is not itself subject to debate and controversy, meaning that those who disagree with the conclusions discussed in the book are not practicing economic science, but are ideologues committed to changing public perception in favor of bad policy. Not only is this insulting, but it is ironic since, as has been exemplified above, Stiglitz himself oftentimes recklessly ignores much of the theoretical and empirical economic literature.

These tactics are used throughout the book, and frequently. Stiglitz’ intentions are to frame the debate as if there is no legitimate controversy surrounding the topic. By doing so he is committing a disservice to his readers, who walk away with an obviously skewed, and unweighted, perception of reality. In fact, Stiglitz is doing exactly what he accuses “The Right” of doing: he is presenting his case in a way that ridicules the notions of academic neutrality or attempted objectivity. For those who read The Price of Inequality because of Stiglitz’ stature as a thinker and an academic, reading the book must end with frustration, because Stiglitz does not showcase any of these qualities. Instead, the book is a roughly 300 page piece of propaganda. What makes the book propaganda is not the controversy surrounding his recommendations, but the fact that his preferred method of disproving the opposition is to discredit them with absurd and insulting accusations.

Inequality is a topic worth exploring, and although tackling inequality simply for the sake of inequality is misguided, exploring the subject helps understand important
imperfections in current institutions and rules. Stiglitz does provide quite a bit of good insight, including his extensive remarks on rent seeking, corporate welfare, and an inadequate banking system. However, mixed with these good comments are a large number of bad recommendations and conclusions, many of which do not stand up to academic rigor. If this book were being published by a more academic publisher it is difficult to see how some of the remarks would make it beyond the initial drafts. Worse still, Stiglitz undermines dissenters by discrediting them by means of the same tactics he accuses them of. This unfortunate feature of *The Price of Inequality* brings a book that people should otherwise read, if with a skeptical mind, down to a book that is difficult to recommend.

**Works Cited**


