

Testimony of Joseph E. Stiglitz
Before the House Select Subcommittee on Coronavirus
March 17, 2021¹

It is a pleasure for me to address this subcommittee on Covid-19. I would like to begin by congratulating Congress and the Administration on what they have already accomplished. Last spring, as the dimensions of the pandemic and its economic aftermath became clear, I wrote that there needed to be a large, comprehensive program with a clear set of priorities, beginning with getting the pandemic under control and addressing the health needs of the country, protecting the most vulnerable, and ensuring that once we reined in the pandemic we would have a quick and robust recovery. Finally, I wrote, we had to make sure that when the country recovered, it didn't just revert to where it was in January, 2020.² We had to "build back better." We needed an economy that was more equitable, where the prosperity was better shared; we needed a greener and more knowledge-based economy. We needed a healthier society.

The pandemic and the weaknesses it exposed

The pandemic exposed many weaknesses in our economy. It revealed a government that was unprepared, underinvested not just in infrastructure but in the capacity to respond to a crisis of this magnitude – by underfunding the CDC, for instance. It also revealed a private sector that was surprisingly unresilient, unable to produce simple products like masks and protective gear, let alone more complicated items like tests and ventilators. And then came the worst revelation of all: The federal government was unable or unwilling to address these deficiencies.

I was particularly concerned in the spring about the incompleteness of the relief packages and their implicit assumption that the pandemic would just disappear in a few weeks' time. The bill that was just passed remedies most of these gaps, but the damage done by the delay may turn out to be costly. How costly, we won't know for some time.

The achievements of ARA

Before discussing the next steps, let me highlight some of the achievements of ARA. A) A large child allowance that will cut child poverty in half. This is a huge step forward, giving the government an affirmative role in directly supporting people, especially children who cannot

¹ University Professor, Columbia University, and chief economist, Roosevelt Institute.

² "[Four Priorities for Pandemic Relief Efforts](#)," Roosevelt Institute Working Paper, April, 2020. I elaborated on some of these ideas in "[Recovering from the Pandemic: An Appraisal of Lessons Learned](#)," Foundation for European Progressive Studies, October 26, 2020.

fund for themselves. B) Sector-specific relief: The huge increases in spending for higher education, the health industry, and especially aid to states and localities, which will stem the tide of austerity policies and contraction that would have otherwise resulted.

Most importantly, the dramatic difference between this bill and the action taken a year ago is that ARA has a vision of what kind of society and economy we want. With the federal government spending so much money, the expenditures should reflect a collective vision. It is a start to building back better.

In this testimony, I focus on one dimension of building back better: creating a more widely shared prosperity. The pandemic has further exposed and aggravated the divides in our society. The irony is that frontline workers – who put themselves most often in harm’s way, who contribute so much to our society – are among the lowest paid. If we value those who educate our children, nurse our sick, and care for our elderly, it is unconscionable that we pay them so little. Their wages are largely determined not by abstract market forces but by decisions we make as a society. Some of this low pay is a legacy of discrimination, many aspects of which we have been reminded of during the last twelve months.

Now I am worried that the K-shaped recovery that’s underway will further aggravate the high levels of inequality in the United States. It may even speed up changes associated with robotization and AI that are already happening and that risk widening the gap even more.³ So it is imperative that we focus policy on dealing with the grave inequities in our society.

The tasks before us are many, and our resources are limited. Thus, we will have to make our dollars do double and triple duty—rescue and revive our economy, promote economic and social justice, push the structural transformation of our economy, and retrofit it to face the existential crisis of climate change. The good news is that research shows there is an ample supply of investments that could do all these simultaneously.⁴ There are strong complementarities. A green infrastructure program can be timely, have large multipliers (with a big bang for the buck), be labor-intensive (creating jobs for those who have not been faring well in recent decades), and better connect workers with jobs through public transportation. The effects of adverse environmental conditions are felt most strongly by the poor, and that’s another reason that better environmental regulations and more investments to protect the environment are such important parts of an equitable recovery.

³ A question which I address with Anton Korinek in "Will COVID-19 Drive Advances in Automation and AI that Exacerbate Economic Inequality?" Forthcoming, *British Medical Journal*.

⁴ See Cameron Hepburn, Brian O'Callaghan, Nicholas Stern, J. E. Stiglitz and Dimitri Zenghelis, "[Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?](#)" *Oxford Review of Economic Policy*, May 8, 2020.

We learned from the programs of the spring that design matters: better-designed legislation, such as the Paycheck Guarantee Act, might have mitigated the soaring unemployment and the enormous pain that it brought to millions of Americans, including the anxiety of losing health insurance in the midst of a pandemic.

I would like to now note two aspects of the ARA that ought to be addressed in future legislation.

First, I would have been happier if some of the key provisions, such as extended unemployment insurance, had been linked to some measure of the weakness in the labor market or the economy. As I argued in another recent paper with former Treasury Secretary Robert Rubin and former OMB Director Peter Orszag, we should have more automatic stabilizers.⁵

Secondly, many of the actions need to be made permanent, for instance those related to reducing child poverty.

Agenda for the future

There is still much to do to have a truly strong, resilient, just, and sustainable economy. It would be impossible to even summarize the way forward in just a few minutes. But I reiterate that it is likely the pandemic has produced scarring, that the nation's poorest will face the adverse effects most grievously, and that well-designed programs can advance these long-term goals even as they enhance the recovery.⁶

- A fairer and better-designed tax system could close loopholes, enhance economic efficiency, promote growth, and reduce the administrative burden and inequities that plague the current system.
- We need to ensure everyone can receive the education that enables them to reach their full potential, regardless of their parents' incomes—a GI Bill for all Americans. We *can* afford it. This is an investment in our country's future, so in a way we cannot afford not to do it. But, with politics in America being what they are, if we cannot reach this goal it is time to recognize the historical legacy of discrimination and deprivation against African-Americans and Native Americans and at least create a GI Bill for these groups.
- We need to deal with the legacy of education debt that has been built up in this country, which imposes an unacceptable burden on too many young Americans.

⁵ See Peter Orszag, Robert Rubin, and J. E. Stiglitz "[Fiscal resiliency in a deeply uncertain world: The role of semiautonomous discretion](#)," Policy Brief 21-2, Peterson Institute for International Economics, January, 2021.

⁶ I have laid out many elements of this agenda in *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*, New York: W.W. Norton, 2019.

- We need affordable health care for all, and the gaps in the ACA need to be quickly remedied—a public option is a reasonable way forward. The pandemic demonstrated the poor health of so many Americans and laid bare the fact that the U.S. has the lowest life expectancy of any major advanced country and the largest health disparities.
- We need to explore public options to make decent housing and a secure retirement more affordable.

Creating fairness and opportunity in markets—and increasing efficiency

The rampant and growing inequalities in our society are, to a large measure, a result of power imbalances in the marketplace. Market power hurts the overall economy, allows the exploitation of workers and consumers, and contributes importantly to inequality.⁷ Stronger competition laws are thus an important part of strengthening the economy. Mismanaged globalization, changing technology, growing corporate market power, and changes in labor legislation and the way it is enforced and implemented have all helped weaken workers' bargaining power, again contributing to growing inequality; and if we are to ensure that we don't have a K-shaped recovery, all of these must be corrected.

Methodology

As I said earlier, from now on all our programs need to do double or even triple duty. An important tool for ensuring this is the distributional analysis of programs. And an important tool for measuring the country's overall progress—and assessing how far we have to go—is the Distributional National Accounts that Congresswoman Maloney has long advocated for.

Macroeconomic perspectives

Before concluding, I would like to say a word about ARA, macroeconomics, and the agenda as we move ahead—including the overarching concern of our K-shaped recovery.

In my judgment, ARA correctly weighed the risks of doing too little versus doing too much: doing anything less would have imposed an unacceptable risk of even more long-term scarring. We did too little in response to the 2008 financial crisis, which is why the recovery took so long. We also learned from the packages last spring that fiscal policy works, even when it is not perfectly designed. It is one of the reasons that the U.S. downturn was so much less than Europe's, despite the greater severity of the pandemic here.

⁷ As I explained in my book *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: W.W. Norton, 2012) we pay a high economic price for these distortions in our economy that lead to more inequality and less opportunity.

It would in fact be a good thing if we faced greatly tightened labor markets. It is only during those times that we bring marginalized groups into the labor force and reduce long-standing inequities.

For a dozen years, capital markets have been distorted by near-zero interest rates: Does anyone really think the scarcity value of capital is zero? As successive chairs of the Federal Reserve have pointed out, the problem has been a lack of fiscal support. I hasten to add that the headline unemployment rates do not adequately capture the weaknesses in the labor market, which may be better reflected by the low level of the employment ratio among those of working age.

Concluding remarks

The American dream has always been about ensuring that everyone has the chance to have a decent, middle-class life. It has always been about opportunity for all, regardless of race, gender, ethnicity, or the income and education of one's parents. We have to recognize that today the American dream is largely a myth.

The pandemic has provided us a moment to reflect on where we are and where we should go, to redesign our economy and society to provide that dream once more, this time for all Americans. I hope we seize the opportunity.