

Cooperating for a better future

Paul Krugman

ABSTRACT: This paper addresses what I consider to be the world's main problems, although I recognise that there are also other problems at present, such as inflation and the war in Ukraine. I will try to address the main problems, which are of interest to CIRIEC, which is an international organisation that pays particular attention to what is called the Third Sector" or "Social Economy", an area that lies between the private business sector and the government despite I am not, I must admit, an expert in this last field. I will deal with it in the context of discussing a couple of problems we face in the world that I think are really important. The first problem is economic inequality, which I know something about. The second problem is climate change and environmental problems, which I think are the most important. I will also refer at the end to some problems related to the COVID pandemic. In all the problems, what we could call the Third Sector can play a big role.

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1. Introduction

Thank you all for being here. Thanks to CIRIEC for the invitation.

This is going to be a talk on what I consider to be the main problems in the world, although I recognise that there are also other problems at present, such as inflation and the war in Ukraine. I am going to try to address the main problems, which are of interest to CIRIEC, which is an international organisation that pays special attention to what is called the ‘Third Sector’¹ or ‘Social Economy’, an area that lies between the private business sector and government, and on which, I have to admit, I am not an expert. I know that Elinor Ostrom has been involved in this area and is an expert in the field, but I will deal with it in the context of discussing the couple of problems we are facing in the world that I think are really important.

The first problem is economic inequality, which I do know something about. The second problem is climate change and environmental problems, which I consider the most important. I will also refer at the end to some issues related to the COVID pandemic. In every problem, what we could call the Third Sector can play a big role. Allow me to say that in the conception of CIRIEC, the Third Sector is mainly made up of cooperative organisations. But trade unions are also very important Third Sector organisations in the economy and, as I will explain, they play a key role in inequality issues.

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2. Inequality, trade unions and the social economy

Let me start with the issue of inequality. As I assume everyone knows, we have seen an extraordinary increase in economic inequality in recent decades. The most intense increase has been in Anglo-Saxon countries such as the United States and, to a lesser extent, in Great Britain and Canada. But the growing inequality problems have spread throughout the world.

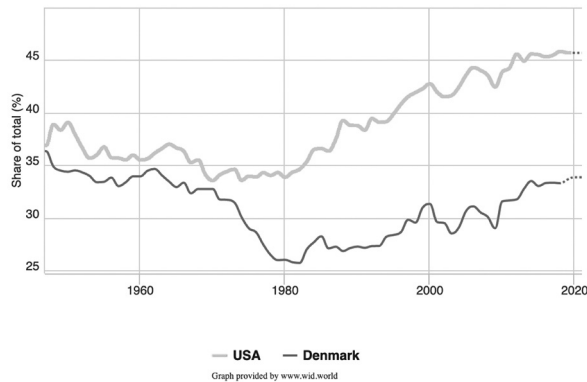


I want to start with a graph that shows the very long-term history of economic inequality in the United States. The source is from the Thomas Piketty Institute in Paris. The dark line shows the share of the top 1% of the US population in total income. The pale line reflects the share of income received by the bottom 50% of the population. You can see that the era I grew up in, the era that we thought was permanent, was a relatively middle-class society. Obviously, it was not an egalitarian society. But it was a relatively egalitarian society, where blue collar workers earned a fairly high income compared to white collar workers and where there were relatively few extremely wealthy people. It was not permanent; it was an interlude. Indeed, before the Second World War, the United States was an extremely unequal country. We subsequently became a relatively egalitarian country and then went back to being a very unequal country. We are now as unequal as we were in the 1920s.

What can we learn from this and from the next graph I'm going to show?

What is surprising, and not widely known, is that the relatively egalitarian society we had did not evolve gradually. We did not go from an unequal society in 1900 and gradually become more equal by 1950. In fact, the change was quite rapid. It all happened in the space of a few years. Actually, the equalisation of our society, and this is true for other countries for which we have data (such as France and the UK), took place over a fairly short period of time, probably less than a decade, in which there was a really sharp reduction in inequalities within society. There is a name for this; a classic paper by Claudia Goldin and Robert Margo (1992)² calls it "the great compression", not depression but compression, referring to the large reduction in inequality in income distribution. Incomes "compressed", that is, the difference between the highest and lowest incomes narrowed, in a fairly short period of time, and I will come back to that in a moment.

Top 10% national income share



1. Professor Krugman uses the terms *third sector* and *social economy* interchangeably.

2. Goldin, C. & Margo, R.A. (1992): *The great compression: The wage structure in the United States at mid-century*. *The Quarterly Journal of Economics*, 107 (1), 1-34.

The other thing that you don't see here, but which is important, is to realise that what we see in this trend of inequality is not inevitable. It is not caused entirely by impersonal forces; instead, it is very much mediated by social organisations and what we could call "Third Sector" organisations.

If you want to understand what happened during the great compression in the United States, well, I'm really sorry... I wanted to say that the comparison here is to show how different things can be.

It is about the 10% shear in the United States and Denmark. Often, like at my institute in New York, we use Denmark as a kind of reference case because it is so different and yet so similar. Technology is the same. The openness to the global economy is the same, but the movement of income, the movement of inequality has been very different. There has been some increase in inequality even in the Nordic countries, even in Denmark and Sweden, probably even a little bit more than the numbers say, because what we know from some major studies is that, in these countries, there is a significant amount of tax evasion and wealth hidden in tax havens, but they are still more egalitarian countries, as you can see when you visit them.

This means that there are institutional factors that greatly affect the degree of inequality. And what are these institutional factors? Well, this is where, as I mentioned, trade unions are almost certainly a really critical issue.

How did the United States go from being a very unequal society to a relatively egalitarian society in the space of a decade (1940-1950)? Well, part of what happened was because of the Second World War. During the war we were not exactly a free market economy. We were a heavily planned economy in which public policy, among other things, acted in a way that tended to equalise incomes. So, there was definitely a period of deliberate income compression. But the war ended. We went back to a peacetime economy, and yet the narrowing of income differences persisted despite that.

So, what changed? Why were we able to remain a relatively egalitarian society? Well, the most important and most obvious answer is union membership in the United States. In 1929, there were 4 million workers who were union members. We were a much smaller country back then. There was a more than fourfold increase in unionisation over a relatively short period, from the beginning of the Second World War to 1949, largely because public policy was supportive of unionisation.

We got a government that supported workers' organising rights, and helping or allowing workers to organise was part of buying social peace during the course of the war. And so, the United States came out of the Second World War with a third of private sector workers unionised, which clearly had a strong egalitarian effect on American society.

We became a much less unequal society in part because we had these Third Sector organisations, neither private sector nor government, that had great bargaining power and used it, not simply to improve the wages of their members, but actually had, as is sometimes said, an umbrella effect. Even companies, even employers who did not have unions at their companies, felt obliged to offer decent wages in order not to have a union organising campaign, and that is how we became a relatively egalitarian society.

The percentage of unionised workers in the private sector in the United States is a key factor: in 1977, 25% of workers were still unionised. Nowadays, only 6% are. A nation without trade unions. And that has a very big effect.

The important thing here is that we believe that these Third Sector organisations have played a great role in one of the major stories of our time, in the fight against inequality.

Why is Denmark so different from the United States? Why does Denmark have levels of inequality that are not much higher than they were 40 years ago? Why does it have decent wages even in fast food restaurants when the United States does not? One answer is that the collapse of unions never happened in the Nordic countries; two-thirds of Denmark's workforce is still unionised. In addition, of course, they have a much larger welfare state, a much stronger safety net, much more public income support. And there is no doubt that the role of trade unions is huge.

Why should we care? Income inequality obviously makes a big social difference: it is how you distribute the amount of income that you generate and the amount of wealth. If a very large part of that wealth goes to a small fraction of the population, less is left for the rest.

The problem with income inequality, with extreme income inequality, is that it distorts society. It creates a society in which people do not live in the same material and social world. One in which the ability to act collectively on important issues is diminished because people don't feel part of any kind of society. They don't really feel part of a society, and that is a really critical factor that I think contributes to our difficulties in other dimensions.

3. Cooperatives, private goods and public goods

I have said that Third Sector organisations are more important even in the United States than we tend to imagine. A surprising amount of US agricultural production is carried out by associations and not simply by traditional private companies. Of course, we have the agricultural cooperatives, but we also have famous examples like some of the fishing companies, which are run by fishermen's cooperative organisations. We have some agricultural productions of particular products that are run by cooperatives. We have consumer cooperatives, although they are relatively few, but they do exist.

But one area where we really have a lot of cooperatives in the United States is in the housing sector. This has to do with the provision of housing in the United States. And I have used the United States as a reference because I am trying to think about what I know about the possibilities of Third Sector organisations.

The United States is a country where people own their own homes. People talk about the culture of home ownership, but it is really largely a tax issue. There are huge tax advantages to owning and not renting. So we are a majority homeowner country. But what does it mean to be a homeowner? The place where I have had very direct experience, personally, is in New

York City, where I live, and in New York City, interestingly, there are a lot of condominiums, but a lot of the housing stock is actually cooperative. I have lived in a cooperative building where, strictly speaking, I am not an owner, but rather a member of the cooperative. I have the right to use my space in the flat, of course, and the conditional right to sell that right to someone else. The building is managed by a committee elected by the residents. You cannot sell to someone unless that person is approved by the committee. I myself had to pass an interview to become a member. It is interesting. There are alternative ways. If you own a condominium in the United States, you simply own your flat, there is a management company and there are very few restrictions on everything. If you're a member of a cooperative, there are more conditions.

Why is this? The answer is that it provides public goods.

If you want to sell, you have a limit; the flats are not as liquid and not as easy to sell. So, it turns out that the cooperative solution has been, in New York City, the favoured solution for ownership. Of course, that's in New York City, which is a very unusual part of the United States, but a fairly large part of housing outside of New York in the United States is also in the form of cooperative communities.

4. Climate change, energy transition and the social economy - third sector

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Let's talk now about climate change.

If you are not terrified by climate change, it is because you are not paying attention to it. All estimates are more or less the same. NASA's estimate in degrees is that we are currently almost one degree above the 1950 global level. Okay, you know, if it's one degree warmer, what difference does that make?

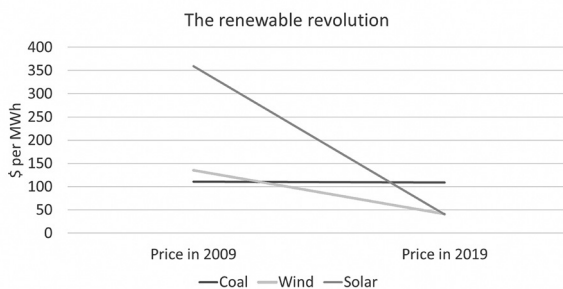
Part of the answer is that we are on track to be probably at least three degrees above. And three degrees is much more significant. Even one degree dramatically increases the likelihood of destructive extreme events. And there are many examples to illustrate this. One that has been haunting me: southern Europe has been experiencing extreme heat waves in recent months. Heat waves are now more extreme and more frequent than they were before. And an even more striking example is in my own country, in the western United States. Drought is the most serious problem there. Major reservoirs are now at 30% of capacity. We are facing an extreme water crisis in the western United States, and we have not yet done anything to deal with it, which is worrying.

Now, climate change, on the face of it, seems to be the kind of problem that organisations other than government cannot address. Obviously, greenhouse gas emissions are an economy-wide thing. The impact of individual behaviour, even group behaviour, is not great. In fact, greenhouse gas emissions are global; it doesn't really matter where on the planet someone releases some methane or CO₂ into the atmosphere. So, what impact can something that is not just a governmental action but, in fact, a coordinated international governmental action have?

There is a lot to be said in this respect. We are not going to get out of this crisis unless there is a major shift in public policy.

But the pieces of the jigsaw can be helped by much more localised action, both in a territorial sense and in the sense of smaller groups of the population.

Again, if the situation continues to evolve unchanged, we rely on the miracle of technology. Twenty-five years ago, it was very difficult to see how we could reduce greenhouse gas emissions without extreme economic costs. Since then, there have been miraculous advances in solar and wind energy; in fact, at the moment, in terms of baseload electricity generation, coal is simply not competitive and wind and solar are now actually superior.



Now, there are all sorts of technical issues: the sun doesn't always shine, the wind doesn't always blow, you have to have ways of storing, you have to have reserve capacity, but these are things we can solve. We are already moving significantly away from fossil fuels to renewables as a source of electricity, and it would take a relatively modest public policy push to make a much bigger change.

The problem, or at least the issue beyond that, is that electricity is not the only way to use energy. It is one thing to say that we can generate our electricity with zero-emission technologies, but: what can we do with the electricity? Can we electrify industry? Can we electrify transport in particular? And so, there is an important question: what will it take to know if we are going to deal with this? Basically, we have the technology to generate electricity without emissions. But how do we move to a regime where we no longer burn fossil fuels to run our cars? How do we move to an electrified industrial sector?

I have been doing some research, inspired by this conference, on the history of transport over the course of the last 120 years. Here is the problem, part of the problem, but an important part of the issue for the electrification of transport is that there is a kind of circular problem in the infrastructure.

People will be reluctant to use electric cars unless there is an abundance of charging stations; people will be reluctant to build an abundance of charging stations unless a lot of people drive electric cars. So there is a chicken and egg problem of getting it going, and some of that

exists, but it is still problematic. Even though electric cars are becoming more available and more affordable, there is the problem of whether I can be sure I can charge it. However, the same problem arose 100 years ago for internal combustion cars. In 1910 there were no petrol stations everywhere; the infrastructure, in fact, was not that there were adequate and passable roads everywhere. The entire modern transport system faced the same problems: you had to invest in the infrastructure to service large numbers of vehicles, but people would not invest in vehicles unless they were reasonably sure that the infrastructure was there.

How did that happen? How did we overcome it?

The answer is that clubs and cooperatives play a surprisingly important role. In the United States, we have the American Automobile Association, Great Britain has the Royal Automobile Club. Other countries have equivalent organisations. In the early days they were instrumental in driving the creation of the infrastructure that made widespread driving possible: a network of service stations. This is exactly the kind of area where cooperatives could play a crucial role, not in solving the climate change problem, but in making key pieces of the puzzle work.

Climate change is a very broad and complex problem. It is something that needs to be solved globally. The efforts that must be made by any individual... we can expect individuals to make good decisions, to try to minimise their impact, we can expect organisations to try, but ultimately the government is going to have to take the lead. However, there are two things: climate change is not the only environmental problem, although it is closely related to other environmental problems.

When studies analyse the benefits of climate change policies, it often turns out that a large part of the benefits would come from the reduction of pollutants other than greenhouse gases. Such a reduction in particulate emissions would have a large positive effect on health. Many of these indirect environmental effects are relatively localised. These are the kinds of things where local organisations can make a big difference in driving change.

So ultimately, yes, we need a really effective global agreement to drastically reduce emissions. If we don't, disaster awaits, but there are also many other localised problems that overlap with climate change where more localised efforts can make a big difference.

5. The COVID-19 pandemic, the health emergency and the third sector – social economy

Inequality and climate change are the two big problems we face. If we do not deal with them, in a decade or two we will find ourselves with unrecognisable societies and a much worse world than today. However, there are other, more short-term problems.

We are back at a conference, some people are wearing masks, for which I thank them. I think it is a wise thing to do even now, but we have just gone through this extraordinary pandemic that is not over.

In controlling the COVID-19 pandemic, government policy has been fundamental. The technological or scientific miracles, the extraordinary development of vaccines at record speed has been remarkable. But also, the level of individual or small group decisions matters enormously.

We return to the case of the United States, where there has been a disappointing response to the COVID-19 pandemic. Vaccination rates have been quite low in significant parts of the country. There was an early phase of the pandemic when people thought that large, densely populated cities were dangerous and that we should all move to the countryside, which was true for a while. Before we understood the disease, before we knew how to deal with it and, above all, before vaccines. Now the opposite is true: probably the safest place in the United States right now is the island of Manhattan, where everyone is vaccinated, and people still wear masks on public transport.

Vaccination rates were strongly related to the messages people received from politicians and the media. So, if conservative politicians were telling people that vaccines are not necessary, or that the disease is not a threat or, in some cases, that it is all a plot by evil world figures, they did not get vaccinated.

Moreover, the United States has a very porous social safety net, it is a much less comprehensive system than other advanced countries. We don't have universal healthcare; we have relatively limited income support programmes, but we still have quite a few programmes and one of the things that happens is that people often don't take advantage of the programmes that are available. There are quite a number of people who are entitled to healthcare provided by the government or are entitled to significant subsidies for healthcare. In the case of vaccination, this was and is free, there is no cost to get vaccinated against COVID.

So, what explains why many people do not take up these programmes? Well, the answer is often that they don't know about them, or at least don't know how to access them. Who brings them to the programmes? How do we get people to contact the health authorities?

To some extent, it is a governmental issue. So, in New York State or in nearby New Jersey, there are major governmental outreach programmes, but it is also the case that independent non-profit organisations, acting as drivers, guide people to social programmes. This is a really key role.

One of the things we are seeing here is that these organisations are much stronger. There is a strong negative correlation between the strength of non-governmental organisations and the likelihood of voting for Donald Trump. The organisations that get people to vaccines are much stronger; the organisations that get people to healthcare, in general, are much stronger in some parts of the country than others, which tells you that there is a potentially important role for these organisations in under-served areas.

Is there any way to sum all this up?

We are in a time of too many crises

Right now, we have too many crises. We have inflation, the energy crisis, the food crisis and the war in Ukraine. But these crises are temporary. Europe, for example, will control inflation. What I am really very concerned about is the global food crisis. I am very concerned that there could be famines linked to the food crisis.

But the crises that will remain are inequality, extreme inequality, which is tearing our societies apart; and environmental damage, which is making the planet more and more uninhabitable for everyone. There is no substitute for tackling these problems, no substitute for the ballot box, and no substitute for electing politicians who will, in fact, tackle the crises.

However, while there are no substitutes, there are complements. Much can be done at the lower levels, be it by good individual behaviour, but also by third sector organisations. They can and will work to give workers more bargaining power and dignity; they can work at local level to stop environmentally destructive practices. I have to admit that there are times when I am glad I'm not young because I don't know what the world might be like in 30 years' time and it's a bit scary to contemplate.

And if we do make it through, it will be partly because third sector organisations can play an important role and help make a difference.

I am supposed to end on a hopeful note, although I am not sure I have succeeded, but insofar as I have succeeded, that is my hope.

Thank you all for having me here and keep up the good work. Thank you.