

# If capitalism is broken, maybe it's fixable

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by K.N.C.

A book excerpt and interview with Joseph Stiglitz, a Nobel laureate in economics and author of “People, Power and Profits”

***From “People, Power, and Profits: Progressive Capitalism for an Age of Discontent” by Joseph Stiglitz. Copyright © 2019 by Joseph Stiglitz. Published by Allen Lane. All rights reserved.***



FOR DECADES Joseph Stiglitz has argued that globalisation only works for a few, and government needs to reassert itself in terms of redistribution and regulation. Today the sources of his ire have grown more dire. Wealth inequality has become a hot-button political issue just as populists are on the march.

In Mr Stiglitz's latest book, “People, Power, and Profits: Progressive Capitalism for an Age of Discontent,” he expands on his left-of-centre economic prescriptions. He believes that capitalism's excesses can be tamed by the state providing a “public option” in areas like health care or mortgages when the market flounders.

As part of *The Economist's* Open Future initiative, we conducted a short, written interview with Mr Stiglitz about his ideas. It is followed by an excerpt from his book, on what he calls “the transition to a postindustrial world.”

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**The Economist:** You argue that right-wing populists aren't wrong—capitalism is indeed rigged. How so?

**Joseph Stiglitz:** It's rigged in the obvious sense: some—the rich and powerful and their children—have better opportunities than others, enabling the perpetuation of advantages. There is not the competitive, level playing-field described in textbooks: in sector after sector, there are a few dominant firms that create almost insurmountable barriers to entry. Too many become wealthy not by adding to the size of the nation's economic pie, but by seizing from others a larger share, through exploitation, whether of market power, informational advantages or the vulnerabilities of others.

**The Economist:** How did we get into this mess? Is it all the Republicans' fault, or can you place a pox on the Democrats' house as well?



**Mr Stiglitz:** There has always been a battle: those with power and wealth want to maintain and augment it, even when it comes at the expense of others. They have resisted attempts to redress the imbalances, whether through antitrust laws, progressive taxation and expenditure policies, or labor legislation. But in a series of progressive reforms from the late 19th century through to President Johnson, progress was made in each of these arenas and America created the first middle-class society.

Then, with President Reagan, a new ideology came to prevail: leave everything to the market, the economy will grow, and everyone will be better off (what is called “trickle-down economics”). Instead, growth slowed and incomes for the vast majority stagnated. Some Democrats also bought into these ideologies, with accompanying policies of unfettered globalisation and financialisation.

Since Trump, however, the splits between the parties have grown ever larger, with the Republicans arguing for policies that would increase inequality and slow growth, as they increase the profits and power of corporations and further eviscerate that of workers and ordinary consumers.

Regulations to restrain banks and to protect the environment are being stripped away, taxes on ordinary Americans are being increased as those on corporations and the wealthy are being reduced, profits of pharmaceutical and health insurance companies are being increased as millions of more Americans are being left without health insurance. Life expectancy in America is, remarkably, in decline. And wages, adjusted for inflation, for people at the bottom of society remain where they were 60 years ago.

**The Economist:** You offer a wide range of solutions. Are there one or two that you see as a linchpin?

**Mr Stiglitz:** At the core is a new social contract, a new balance between the market, the state and civil society, based on what I call “progressive capitalism”. It channels the power of the market and creative entrepreneurship to enhance the well-being of society more generally. This will entail rewriting the rules of the economy, for instance, to curb market power of our 21st century tech and financial behemoths, to ensure that globalisation works for ordinary Americans, not just for corporations, and that the financial sector serves the economy rather than the other way around.

It entails increased government investment in technology, education and infrastructure—advances in science and technology and our ability to cooperate at scale. They are why our standards of living and life expectancies are so much higher today than they were 200 years ago.

With climate change providing an existential threat, both public programs and regulations have to be directed at creating a green economy. Essential in our ability to ensure that a middle-class life is accessible to most citizens will be a “public option,” a government alternative, for instance, in the provision of mortgages, retirement security and medical care.

**The Economist:** Behind your reforms is a bigger role for the state. But if government is dysfunctional, endowing the state with more economic power is like giving a toddler a power-drill: who knows what damage will ensue? Aren't you worried that your solutions fall flat if the system that caused the mess is incapable of managing the fixes?

**Mr Stiglitz:** All humans, and all human institutions, are fallible. That is true both in the private and public sectors: look at the devastation wrought by private banks in the 2008 crisis, a loss of GDP (from what the economy would otherwise have produced) cumulatively now estimated in Europe and America to be in excess of \$10 trillion.

But government can and has worked well in many places, including in America. Both social security and Medicare have far lower administrative costs than private firms providing comparable services. Modern economics has made us sensitive to the underlying incentive problems in both the public and private sectors, providing tools to enhance efficiency and accountability. Oversight—including systems of checks and balances and an active free press—are essential, and this is again true, both in the private and the public sector.

**The Economist:** In an environment of post-fact politics, you marshal a lot of evidence to support your views—which counts for zilch if the political terrain disdains evidence. So how can your reforms stand a chance of being adopted, unless you go to battle armed with narrative, emotion, superficialities and a dash of embitterment?

**Mr Stiglitz:** I'm a Midwestern optimist—a position that is perhaps hard to maintain in the face of what has been occurring. I believe, however, that the vast majority of Americans

can be moved by reason and evidence, but I also believe that “emotions” are also on the progressive side. There is something distinctly un-American about our un-level playing field, with 20% of American children growing up in poverty; or with so much power concentrated in the hands of so few firms—power that they repeatedly abuse.

Polls show that the vast majority of Americans support the policy positions which I advance in the book, and they want a restoration of true democracy. We have to curb the power of money in our politics and end the systematic attempts at disenfranchisement. Political engagement of the kind we saw in 2018—and the increasing awareness of young people of how much is at stake—hopefully is setting the stage for the return of the country to its progressive ideals.

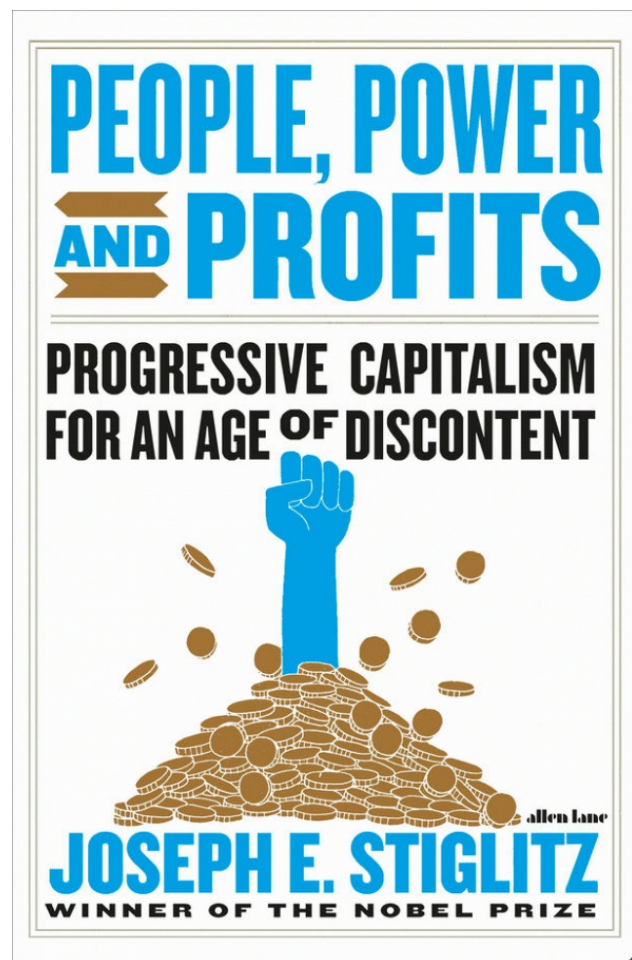
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### **Facilitating the Transition to a Postindustrial World**

**Excerpted from “People, Power, and Profits: Progressive Capitalism for an Age of Discontent” by Joseph Stiglitz (Allen Lane, 2019)**

The US, like most countries in Europe, has been struggling to adapt to deindustrialization, globalization, and the other major shifts in its economy and society. This is another area where markets need the help of the government. Facilitating transition after the fact is extraordinarily costly and problematic. We should have done more to help those who were losing their jobs to globalization and advances in technology, but Republican ideology said no, let them fend for themselves. Government must anticipate the broad strokes of future structural shifts. Adapting our economy to climate change and to the changing demography are just two of many challenges of “transition” facing our economy and society in coming years. New technologies—including robotization and artificial intelligence— represent further challenges.

Recent and earlier episodes of such changes have generated one important lesson: the market on its own is not up to the task. There is a simple reason already explained: those most affected, for instance, those who are losing their jobs, are least able to fend for themselves. The changes often imply that their skills are less valuable. They may have to move to where the jobs are being created—and house prices in the growing parts of the





country are often far higher. Even if, after training, their job prospects might be good, they don't have the resources for retraining, and financial markets will typically only advance them the money at usurious interest rates. They lend at normal interest rates only to those who have good jobs, a good credit history, and good equity in their home—in other words, to those who don't need the money.

Thus, there is an essential role for government to facilitate the transition, through what have been called active labor market policies. Such policies help retrain individuals for the new jobs and help them find new employment. Another tool for government is referred to as industrial policies, which help restructure the economy into the directions of the future and assist the creation and expansion of firms, especially small and medium-sized enterprises in these new sectors. Some countries, like those in Scandinavia, have demonstrated that well-designed active labor market and industrial policies can create jobs as fast as jobs get destroyed and can move people from the old jobs to the new. There have been failures, but that is because sufficient attention has not been paid to what makes for successful policies.

### *Place-based policies*

As government pursues labor market and industrial policies, it needs to be sensitive to questions of location. Too often economists ignore the social and other capital that is built into a particular place. When jobs leave a place and move elsewhere, economists sometimes suggest that people should move too. But for many ... with ties to families and friends, this is not so easy; and especially so since with the high costs of child care, many people depend on their parents so they can go to work. Research in recent years has highlighted the importance of social bonds, of community, in individuals' well-being.

More generally, decisions about where to locate are not efficient. Too many people may want to crowd into the big urban centers, causing congestion and putting strains on local infrastructure. Among the reasons that factories moved to rural areas ... was that wages were low, public education ensured that workers had enough skills nonetheless to be highly productive, and our infrastructure was sufficiently good that it was easy to get raw materials into the factories and the finished goods out. But some of the same forces that had led to low wages are now contributing to the problem of deindustrialization. Wages were low in part because of lack of mobility—with perfect mobility, wages (skill-adjusted) would be the same everywhere. But this lack of mobility is key to understanding why deindustrialization is so painful.

In short, we need policies focusing on particular places (cities or regions going through stress), in what are called place-based policies, to help restore and revitalize communities. Some countries have managed such policies extraordinarily well: Manchester, England, the textile capital of the world in the nineteenth century, has reinvented itself—with help from the UK government—as an educational and cultural center. It still may not be as relatively prosperous as it was in its heyday, but it is instructive to compare Manchester with Detroit, which the United States simply let go bankrupt.

Government played a central role in the transition from agriculture to a manufacturing economy; it now needs to play a similar role in the transition to the new economy of the twenty-first century.

### *Social Protection*

One of the most important detractors from individual well-being is a sense of insecurity. Insecurity can also affect growth and productivity: individuals, worrying about whether they will be thrown out of their house or lose their job and only source of income, can't focus on the tasks at work in the way they should. Those who feel more secure can undertake riskier activities, often with higher payoffs. In our complex society, we are constantly confronting risks. New technologies may take away jobs, even if they also provide new ones. Climate change itself presents untold new risks, as we have recently experienced with hurricanes and fires. Again, large risks like these and ones associated with unemployment, health, and retirement, are risks that markets do not handle well. In some cases, like unemployment and health insurance for the aged, markets simply do not provide insurance; in other cases, like retirement, they provide annuities only at high costs, and even then, without important provisions—such as adjustments for inflation. That is why almost all advanced countries provide social insurance to cover at least many of these risks.

Governments have become fairly proficient in providing this insurance—transaction costs for the US Social Security system are a fraction of those associated with comparable private insurance. We need to recognize, however, that there are large gaps in our system of social insurance, with many important risks still not being covered either by markets or by government.

[...]

### *Conclusions*

Changes and reforms are necessary to achieve a more dynamic economy, growing faster, an economy that serves people, and not the other way around. Many of the policies are hardly novel—variants of these policies have worked successfully in other countries. It's not the economics that are difficult. It's the politics.

Even if we get the politics right and succeed in achieving the reforms described here, attaining a middle-class life may still be difficult: even families with reasonable jobs may not be able to have an adequate retirement or afford to send their children to college. Just as, traditionally, farmers helped each other raise a new barn, and just as families pull together in times of need, our society works best when everyone works together. The positive agenda of restoring growth for all is part of the broader ambition of making a middle-class life accessible to all.