

SUNDAY REVIEW

The New York Times

Progressive Capitalism Is Not an Oxymoron

We can save our broken economic system from itself.

By Joseph E. Stiglitz

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April 19, 2019

Despite the lowest unemployment rates since the late 1960s, the American economy is failing its citizens. Some 90 percent have seen their incomes stagnate or decline in the past 30 years. This is not surprising, given that the United States has the highest level of inequality among the advanced countries and one of the lowest levels of opportunity — with the fortunes of young Americans more dependent on the income and education of their parents than elsewhere.

But things don't have to be that way. There is an alternative: progressive capitalism. Progressive capitalism is not an oxymoron; we can indeed channel the power of the market to serve society.

In the 1980s, Ronald Reagan's regulatory "reforms," which reduced the ability of government to curb the excesses of the market, were sold as great energizers of the economy. But just the opposite happened: Growth slowed, and weirder still, this happened in the innovation capital of the world.

The sugar rush produced by President Trump's largess to corporations in the 2017 tax law didn't deal with any of these long-run problems, and is already fading. Growth is expected to be a little under 2 percent next year.

This is where we've descended to, but not where we have to stay. A progressive capitalism based on an understanding of what gives rise to growth and societal well-being gives us a way out of this quagmire and a way up for our living standards.

Standards of living began to improve in the late 18th century for two reasons: the development of science (we learned how to learn about nature and used that knowledge to increase productivity and longevity) and developments in social organization (as a society, we learned how to work together, through institutions like the rule of law, and democracies with checks and balances).

Key to both were systems of assessing and verifying the truth. The real and long-lasting danger of the Trump presidency is the risk it poses to these pillars of our economy and society, its attack on the very idea of knowledge and expertise, and its hostility to institutions that help us discover and assess the truth.

There is a broader social compact that allows a society to work and prosper together, and that, too, has been fraying. America created the first truly middle-class society; now, a middle-class life is increasingly out of reach for its citizens.

America arrived at this sorry state of affairs because we forgot that the true source of the wealth of a nation is the creativity and innovation of its people. One can get rich either by adding to the nation's economic pie or by grabbing a larger share of the pie by exploiting others — abusing, for instance, market power or informational advantages. We confused the hard work of wealth creation with wealth-grabbing (or, as economists call it, rent-seeking), and too many of our talented young people followed the siren call of getting rich quickly.

Beginning with the Reagan era, economic policy played a key role in this dystopia: Just as forces of globalization and technological change were contributing to growing inequality, we adopted policies that worsened societal inequities. Even as economic theories like information economics (dealing with the ever-present situation where

information is imperfect), behavioral economics and game theory arose to explain why markets on their own are often not efficient, fair, stable or seemingly rational, we relied more on markets and scaled back social protections.

The result is an economy with more exploitation — whether it's abusive practices in the financial sector or the technology sector using our own data to take advantage of us at the cost of our privacy. The weakening of antitrust enforcement, and the failure of regulation to keep up with changes in our economy and the innovations in creating and leveraging market power, meant that markets became more concentrated and less competitive.

Politics has played a big role in the increase in corporate rent-seeking and the accompanying inequality. Markets don't exist in a vacuum; they have to be structured by rules and regulations, and those rules and regulations must be enforced. Deregulation of the financial sector allowed bankers to engage in both excessively risky activities and more exploitive ones. Many economists understood that trade with developing countries would drive down American wages, especially for those with limited skills, and destroy jobs. We could and should have provided more assistance to affected workers (just as we should provide assistance to workers who lose their jobs as a result of technological change), but corporate interests opposed it. A weaker labor market conveniently meant lower labor costs at home to complement the cheap labor businesses employed abroad.

We are now in a vicious cycle: Greater economic inequality is leading, in our money-driven political system, to more political inequality, with weaker rules and deregulation causing still more economic inequality.

If we don't change course matters will likely grow worse, as machines (artificial intelligence and robots) replace an increasing fraction of routine labor, including many of the jobs of the several million Americans making their living by driving.

The prescription follows from the diagnosis: It begins by recognizing the vital role that the state plays in making markets serve society. We need regulations that ensure strong competition without abusive exploitation, realigning the relationship between corporations and the workers they employ and the customers they are supposed to serve. We must be as resolute in combating market power as the corporate sector is in increasing it.

If we had curbed exploitation in all of its forms and encouraged wealth creation, we would have had a more dynamic economy with less inequality. We might have curbed the opioid crisis and avoided the 2008 financial crisis. If we had done more to blunt the power of oligopolies and strengthen the power of workers, and if we had held our banks accountable, the sense of powerlessness might not be so pervasive and Americans might have greater trust in our institutions.

There are many other areas in which government action is required. Markets on their own won't provide insurance against some of the most important risks we face, such as unemployment and disability. They won't efficiently provide pensions with low administrative costs and insurance against inflation. And they won't provide an adequate infrastructure or a decent education for everyone or engage in sufficient basic research.

Progressive capitalism is based on a new social contract between voters and elected officials, between workers and corporations, between rich and poor, and between those with jobs and those who are un- or underemployed.

Part of this new social contract is an expanded public option for many programs now provided by private entities or not at all. It was a mistake not to include the public option in Obamacare: It would have enriched choice and enhanced competition,

lowering prices. But one can design public options in other arenas as well, for instance for retirement and mortgages. This new social contract will enable most Americans to once again have a middle-class life.

As an economist, I am always asked: Can we afford to provide this middle-class life for most, let alone all, Americans? Somehow, we did when we were a much poorer country in the years after World War II. In our politics, in our labor-market participation, and in our health we are already paying the price for our failures.

The neoliberal fantasy that unfettered markets will deliver prosperity to everyone should be put to rest. It is as fatally flawed as the notion after the fall of the Iron Curtain that we were seeing “the end of history” and that we would all soon be liberal democracies with capitalist economies.

Most important, our exploitive capitalism has shaped who we are as individuals and as a society. The rampant dishonesty we’ve seen from Wells Fargo and Volkswagen or from members of the Sackler family as they promoted drugs they knew were addictive — this is what is to be expected in a society that lauds the pursuit of profits as leading, to quote Adam Smith, “as if by an invisible hand,” to the well-being of society, with no regard to whether those profits derive from exploitation or wealth creation.

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