

## Books that are noteworthy

Mark M. Michalski

**Capitalism, Alone: The Future of the System That Rules the World by Branko Milanovic. Belknap/Harvard University Press, 387 pages, 2019.**

Earlier this year in March, just before the COVID 19 pandemic erupted and spread globally, the IMF Joint-Library in Washington DC hosted a “Capitalism, Alone” book launching event. Many from the World Bank and the IMF came to hear former colleague-turned-academic, Branko Milanovic, who teaches at the City University in New York. Back in the days of the Grand Transformation, dissolution of the Soviet Empire and Poland’s economic transition to a market economy, I had an opportunity to work along with Branko at the same Transition Department of the World Bank, headed by Alan Gelb.

Branko already then was immersed in a research on inequality and poverty issues. The clearer focus on poverty, was a result of the then Bank’s President James Wolfensohn who formulated a new vision for the World Bank: “We Dream of the World Free from Poverty”. This visionary line is boldly inscribed at the headquarters entrance to the Bank on 1818 Pennsylvania Avenue for all to see. Branko has since delved deeply into the most complex issues of global inequality and poverty bringing it to the next - higher - level of discussion, analysis and understanding. Branko went on to publish two highly acclaimed books on the subject: *Global Inequality*, and *The Haves and Have-Nots - a Brief and Idiosyncratic History of Global Inequality*.

Now he has turned to tackle a bigger, perhaps an even more challenging topic, namely capitalism’s rise to global dominance. Here he divides broadly the capitalist system into two distinct versions: the liberal capitalism – found in the West and the political capitalism that is powerfully emerging from China. In this new book he ventures to look into what the future may hold and, how different models of capitalism compete for world leadership. He tackles his task in five chapters to explain the paramount reasons for the dramatic historical shift. Beginning with meritocratic liberal capitalism, going through various forms of communism, the author looks into the future of global capitalism in its new, and (more populist?) yet emerging form. Surveying these models, supported by elaborate data sets and analytics, he ponders questions such as: What are the prospects for a fairer world now that capitalism is the only game in town?

His conclusions are neither surprising nor fatalistic. Capitalism as an imperfect tool, gets much wrong, (we see now all around us and across the globe big bands of critics, destructive rebels and manifestations). But also capitalist, or more properly: market economy gets much right—and yet it is not properly appreciated nor understood. No system in the past provided so many amazing innovations, inventions, and creative ways to anticipate and respond to

human needs and/or desires. It is, to put it crudely - a tool, a sharp one at that. One that does the job and gets things done. Could we blame a blade for being too sharp? The use of it defines and determines utility. It is the moral, or immoral purpose use of the blade that we need to and should judge. Our task is to discern and clearly distinguish the market economy in the moral context to really and fully understand it.

Branko argues that capitalism is successful, because it delivers, not only efficiency, (mass production, or in Marxist criticism: overproduction) but also delivers more and more prosperity. The system responds effectively to some broad range of human desires, needs and wants. However it carries more than just the visible economic price tag, but also the not immediately visible: moral price. It tends to push us to treat material success as the ultimate goal, while offering no guarantee of stability. Increasingly, we seem to witness a growing tendency towards inequality, loss of stable jobs and other problems resulting from unbridled consumerism, fueled by seemingly unstoppable globalization.

That capitalist system, most efficient tool for mass production of consumer goods and services is surprisingly found (along with its version of political capitalism with social characteristics) in China. Many academics and post Marxist intellectuals and others claim that though it is more efficient, here is more vulnerable to corruption. This corruption often does undermine effective administration, growth, transparency, vibrant civic society and puts the system at risk.

It seems perhaps naive to think that the system of political capitalism would eventually be more liberalized, democratic and free, as some have hoped for so long. The omnipotent state can at any moment suppress private sector interest groups. As Branko puts it, structural forces within meritocratic capitalism work toward greater inequality.

Overall, an interesting and provocative overview of the recent history of capitalism and globalization. Branko clearly views the current social, political and economic situation globally through the prism of a confrontation between the US and China. He researches this through the prism of a conflict between models of capitalism: political vs liberal, dirigist vs democratic. The world we live in is however much more complex than this, because often it includes elements of both. And at times one dominates more than the other. The author concludes by contrasting both models with social democratic capitalism. I recall nostalgically that great euphoria and enthusiasm while working as an intern for M. Novak, who wrote his opera magna: *Spirit of Democratic Capitalism*. Novak based his optimism on trust in the system and individuals seeking an enlightened self-interest, pursuing a healthy profit motive and contributing to the greater good of both individuals and society. Milanovic is rather pessimistic and thus per-

haps less persuasive in his prognosis for global capitalism's future.

Branko was educated in the Marxist economics of former Yugoslavia. This might have impacted his determinist views of historical forces becoming so critical in his analysis. His advocating progressivism (favoring more woke approach) clearly would prefer an equalitarian consensual system. We are well aware we need to strive for the equal process and all inputs in that process, however there is no guarantee there will be an equal outcome. The Marxian utopia of striving for perfect equality on earth shows over and over again: it is perfectly capable to effectively deliver destruction, demolition and disasters at a very high human cost. Unless we learn it from the recent history of the previous century – we are doomed to repeat it. Capitalism in essence means unequal distribution of wealth, while socialism: equal distribution of misery and a multitude of maladies. As the Covid 19 changes almost everything we do now, and as we entered in the next normal – one of the highest value of us, educators, would be - among others – to inform, instruct and illuminate all students (and everywhere) about the dangers of false socialist utopia.

**People, Power, and Profits: Progressive Capitalism for an Age of Discontent, by Joseph Stiglitz, W.W. Norton & Co., 371 pages, 2019.**

A Nobel-prize laureate, prolific author, social(ist) activist, Joseph Stiglitz presents perhaps one of the most daring challenges of our times: let's dispose of the current capitalism --the free market system -- if we want to reclaim our economy. America needs more "woke", or "progressive" capitalist system. Regulations, government interventions are in order to save the capitalism from itself. Seemingly incessant massive protests, persistent covid19/plague with growing populist panic - all seem to confirm it. But do they, really? Do we absolutely need the most radical set of reforms? Does not capitalism with its "inherent contradictions" eventually adjusts, assimilates, adapts (and adopts) to the criticism and becomes even more effective and entrepreneurial - responding to these new challenges? Many people seem to accept that the American economy with its government favors and supports big business. Sensible, pragmatists and economists maintain that the large tasks of modern society call for large corporations, to effectively address these large tasks. Business of America is business, after all, as we have come to appreciate it.

Stiglitz argues to the contrary and forcefully in his recent book, *People, Power, and Profit*. The present situation is dire - if not desperate. Just a handful of big, multinational corporations have come to dominate entire sectors of the economy. These giants contribute to skyrocketing inequality, social tensions and slow, sluggish growth. The financial industry has managed to write its own regulations, new tech companies have accumulated our personal data with little or no oversight, and re-negotiated trade deals seem to do little for the average worker. Too many have made their wealth through exploitation of others rather than through wealth creation. If something significant isn't done, new technologies may make matters worse, while

increasing inequality, unemployment and increasing riots cause even bigger havoc.

The US has lately, like many European countries, been endeavoring to adapt to automatization, globalization, and other big shifts in its economy and society. How can we do more to help those who were losing their jobs to globalization and advances in technology? Governments must anticipate the broad strokes of future structural shifts. New technologies, including robotics and artificial intelligence, represent enormous challenges to us all. Stiglitz identifies key sources of wealth and of increases in standards of living, based on learning, advances in science and technology, and the rule of law. He shows that the assault on the judiciary, on universities, and the media undermines the very institutions that have long been the foundation of America's economic might and its democracy. Helpless though we may feel today, we are far from powerless. In fact, the economic solutions are quite clear and quite simple. We need more prudence in formulating long term policies. We need to exploit the benefits of markets while taming their excesses. We need to make sure that markets work for us and not the other way around. If enough citizens rally behind the agenda for a change outlined in this book, it may not be too late to create a "progressive capitalism" that will recover what we lost and create more evenly shared prosperity. That noble desire would be very nice if not so difficult to achieve in practice, in disruptive democratic capitalism that is undergoing such a significant scrutiny and severe criticism. .

"Demagogues do not help, wrote Gavin Jackson in the review of *The Financial Times*: 'Jobs were certainly destroyed in the process of globalization, but they will be destroyed again in the process of the reckless de globalization.' The book examines four major trends which set the US on a path to a dismal economy: monopoly power, mishandled globalization, poor financial regulation and new technologies that enable further exploitation with manipulation. Stiglitz proposes what could and should do next. Reproaching an increasingly out of hand, big government spending and welfare with beefed up regulation, the author proposes a few of the more radical ideas: employment guarantee, or universal basic income. His ideas are not really new, nor original and all are explored elsewhere, and Stiglitz prescribes even more regulations and provides strong defense of government interventions.

Another reviewer, Daniel W. Drezner of *The New York Times* thus has summed up: "He (Stiglitz) argues that the American system of capitalism has fallen down and needs government help to get back up again. *People, Power, and Profits* builds on Stiglitz's earlier work and adds some pretty big ambitions. In the preface, he writes: 'This is a time for major changes. Incrementalism — minor tweaks to our political and economic system — are inadequate to the tasks at hand.' [...] Stiglitz's diagnosis of what ails the American economy will have a familiar ring to anyone who has followed these debates. The rules of the game have been stacked in favor of the haves over the have-nots. This has widened economic inequality and increased the concentration of market power among leading firms in every

sector, slowing down broad-based productivity growth. These firms and wealthy individuals are converting their riches into political power, further revising the rules to entrench their position at the top. [...] People, Power, and Profits goes beyond diagnosis to treatment. At the core of Stiglitz's plan is the strengthening of the state. [...] He proposes a whole host of reforms, including significant investments in public goods like basic research, more stringent regulation of firms and measures to preserve and protect the voting franchise.

According to Stiglitz, it is not China, which has a large trade surplus, that makes "trade war", but the United States, which has a large (and growing) trade deficit. He defends China's trade surpluses at the expense of the United States and he advises China to take sanctions against the United States. In his earlier book, *Globalization and Its Discontents*, Stiglitz argues that what are often called "developing economies" are, in fact, not developing at all. China seems to be a case of its own. He puts much of the blame on the IMF. Is he implicitly criticizing his own ineffective policies and advice he prescribed when he was at the helm of these institutions?

The Economist, British weekly, published an extensive interview titled, "If capitalism is broken, maybe it's fixable". Here are notable excerpts:

"For decades Joseph Stiglitz has argued that globalization 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 direr. Wealth inequality has become a hot-button political issue just as populists are on the march.

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?

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 anti-trust 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"). In-

stead, growth slowed and incomes for the vast majority stagnated. Some Democrats also bought into these ideologies, with accompanying policies of unfettered globalization and financialization.

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, and 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?

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 globalization 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.

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?

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."

In his last chapter: *Reclaiming America*, the author points out to disparity between our values and social reality. He does not mean personal (or religious) values but values that "inform our public policies, programs, and economic perspectives." Thus we see that the only sensible values he promotes are the real, rational, and reasonable moral sentiments that constitute who we are. He quotes Founding Fathers and the Constitution as if these were an ultimate reference points. Yet the Founding Fathers anchored the key principles on the Judeo-Christian values and traditions that the present day protesters are working

so hard to dismantle and destroy. The revolutionaries are not seeing that at the same time they destroy moral foundations, the highest attainments and values of our endangered and fragile civilization.

The danger of Stiglitz's promoting social welfare or, as he puts it: "the General Welfare not for one percent but for all". As great as it sounds – it is simply socialist utopia. The riddle of social inequality is one of the most urgent yet equally complex of topics. The utopian quest for social equality is being dressed and served somewhat differently, not in a new but novel format. Its content or core is the same. Social order that aims to replace freedom of religion but deifies person is always bound to fail. All the previous attempts have failed. It failed in Eastern Europe in its Fabian form, or utopian, romantic, and so called scientific (Marxist) socialism. They always have promised a form of a worker paradise on earth. That, on the condition: if only we eradicate any (and all) forms of religions. Then, immediately all workers will attain an earthly paradise. That, time and again, as recent history teaches us, turning this idea to reality invariably turned into most hellish experience as we saw: most bloody 20th century with over 100 million dead. The experiment however in different forms and disguises seems to always re-emerge and attract new masses (curiously: mostly academics and bureaucrats) willing to try it again. It did not work during the Soviet era,

but let's give it another try. This time it's going to be different. Will it work? No, it will not. One of the great former socialist philosophers, (turned its best critic) Leszek Kolakowski, after his revisionist period and years of research came to the simple conclusion: socialism should be first tested on mice before imposing it on any human being.

Joseph Eugene Stiglitz, a professor at Columbia University, received the Nobel Memorial Prize in Economic Sciences (2001). He served as a senior vice president and chief economist of the World Bank and was a chairman of the Council of Economic Advisers during Clinton Administration. A well known critic of globalization, and of international institutions such as the International Monetary Fund and the World Bank. In 2000, Stiglitz founded the Initiative for Policy Dialogue (IPD), a left-leaning think tank on international development based at Columbia University. He has been a member of the Columbia faculty since 2001, and received that university's highest academic rank, university professor, in 2003. He was the founding chair of the university's Committee on Global Thought. Stiglitz as the chairman of the U.N. Commission on Reforms of the International Monetary and Financial System, oversaw proposals and final report on reforming the international monetary and financial system. He served as chair of the international Commission on the Measurement of Economic Performance and Social Progress.