

PEOPLE, POWER, **AND** PROFITS

**PROGRESSIVE CAPITALISM
FOR AN AGE OF DISCONTENT**



JOSEPH E. STIGLITZ
WINNER OF THE NOBEL PRIZE



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To my grandchildren.

And to my dear friends Tony Atkinson

and Jim Mirrlees, who left this world all too soon.

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PREFACE

I grew up in the golden age of capitalism, in Gary, Indiana, on the southern shore of Lake Michigan. It was only afterward that I found out that was the golden age. At the time, it didn't seem so golden—I saw massive racial discrimination and segregation, great inequality, labor strife, and episodic recessions. One couldn't help but see the effects, both on my schoolmates and on the façade of the city.

The city traced the history of industrialization and deindustrialization in America, having been founded in 1906 as the site of the largest integrated

steel mill in the world, and named after the founding chairman of US Steel, Elbert H. Gary. It was a company town through and through. When I went back for my fifty-fifth high school reunion in 2015, before Trump had become the fixture in the landscape that he is today, the tensions were palpable, and for good reason. The city had followed the country's trajectory toward deindustrialization. The population was only half of what it was when I was growing up. The city was burned out. It had become a filming location for Hollywood movies set in war zones, or after the apocalypse. Some of my classmates became teachers, a few, doctors and lawyers, and many, secretaries. But the most poignant stories at the reunion were from classmates who described how, when they graduated, they had hoped to get a job in the mills but the country was in another episodic downturn and instead they went into the military, setting their life trajectory into a career in policing. Reading the roster of those of my classmates who had passed away, and seeing the physical condition of many of those who remained, was a reminder of the inequalities in life expectancy and health in the country. An argument broke out between two classmates, a former policeman virulently criticizing the government, and a former schoolteacher pointing out that the Social Security and disability payments the former policeman depended on came from that same government.

When I left Gary in 1960 to study at Amherst College in Massachusetts, who could have predicted the course history would take and what it would do to my city and my classmates? The city had shaped me: the gnawing memories of inequality and suffering induced me to switch from my passion for theoretical physics to economics. I wanted to understand why our economic system failed for so many, and what could be done about it. But even as I studied the subject—coming to better understand why markets often don't work well—the problems were growing worse. Inequality was increasing, beyond anything that had been imaginable in my youth. Years later, in 1993, as I entered the administration of President Bill Clinton at first as a member, and then chair, of the Council of Economic Advisers (CEA), these issues were just beginning to come into focus; sometime in the mid-1970s or early 1980, inequality took a nasty turn upward, so that by 1993, it was far greater than it had been any time in my life.

My study of economics had taught me that the ideology of many conservatives was wrong; their almost religious belief in the power of markets—so great that we could largely simply rely on unfettered markets for running the economy—had no basis in theory or evidence. The challenge was not just to persuade others of this, but to devise programs and policies that would reverse the dangerous increases in inequality and the

potential for instability from the financial liberalization begun under Ronald Reagan in the 1980s. Troublingly, faith in the power of markets had spread by the 1990s to the point where financial liberalization was being pushed by some of my own colleagues in the administration, and eventually by Clinton himself. [1](#)

My concern with increasing inequality grew while I served on Clinton's CEA, but since 2000 the problem has reached ever more alarming heights as inequality grew, and grew, and grew. Not since before the Great Depression have the country's richest citizens captured such a large proportion of the nation's [income.2](#)

Twenty-five years after entering the Clinton administration I find myself reflecting: How did we get here, where are we going, and what can we do to change course? I approach these questions as an economist, and not surprisingly, I see at least part of the answer lying in our economic failures—the failure to handle well the transition from a manufacturing economy to a service-sector economy, to tame the financial sector, to properly manage globalization and its consequences, and most importantly, to respond to the growing inequality, as we seemed to be evolving into an economy and democracy of the 1 percent, for the 1 percent and by the 1 [percent.3](#) Both experience and studies have made it clear to me that economics and politics

cannot be separated, and especially not in America's money-driven politics. So while most of this book focuses on the economics of our current situation, I would be remiss if I did not say something about our politics. Many elements of this diagnosis are by now familiar, including excessive financialization, mismanaged globalization, and increasing market power. I show how they are interrelated, how, together, they explain both why growth has been so anemic and why the fruits of what little growth we've had have been so unequally shared.

This book, though, is not just about diagnosis; it is also about prescription: what we can do, the way forward. To answer such questions, I have to explain the true source of the wealth of nations, distinguishing wealth creation from wealth extraction. The latter is any process whereby one individual takes wealth from others through one form of exploitation or another. The true source of "the wealth of a nation" lies in the former, in the creativity and productivity of the nation's people and their productive interactions with each other. It rests on the advances in science, which teach us how we can discover the hidden truths of nature and use them to advance technology. Further, it rests on advances in understanding of social organization, discovered through reasoned discourse, leading to institutions such as those broadly referred to as the "rule of law, systems of checks and

balance, and due process.” I present the outlines of a progressive agenda that represents the antithesis to the agenda of Trump and his supporters. It is, in a sense, a twenty-first-century blend of Teddy Roosevelt and FDR. The central argument is that following these reforms will lead to a faster-growing economy, with shared prosperity, in which the kind of life to which most Americans aspire is not a pipe dream but an attainable reality. In short, if we truly understand the sources of the wealth of the nation, we can achieve a more dynamic economy with greater shared prosperity. This will require government to take a different, probably larger, role than it does today: we cannot shy away from the need for collective action in our complex twenty-first-century world. I show too that there is a set of eminently affordable policies that can make a middle-class life—the life which seemed within our grasp in the middle of the last century but now seems increasingly to be out of reach—once again the norm rather than the exception.

Reaganomics, Trumponomics, and the Attack on Democracy

As we reflect upon our current situation, it is natural to think back some forty years to when the Right again seemed triumphant. Then too, it seemed a global movement: Ronald Reagan in the US, Margaret Thatcher in the

UK. Keynesian economics, which emphasized how government could maintain full employment through managing *demand* (through monetary and fiscal policy) was replaced with *supply-side economics*, emphasizing how deregulation and tax cuts would free up the economy and incentivize it, increasing the supply of goods and services and thereby the incomes of individuals.

Deja vu: Voodoo economics

Supply-side economics did not work for Reagan and it won't work for Trump. Republicans tell themselves and the American people that the Trump tax cut will energize the economy, so much so that the tax losses will be less than the skeptics claim. That's the supply-side argument, and we ought to know by now that it does not work. Reagan's tax cut in 1981 opened up an era of enormous fiscal deficits, slower growth, and greater inequality. Trump, in his 2017 tax bill, is giving us an even bigger dose of policies grounded not in science but in self-serving superstition than that provided by Reagan. President George H. W. Bush himself called Reagan's supply-side economics *voodoo economics*. Trump's is voodoo economics on steroids.

SOME OF TRUMP'S supporters admit that his policies are far from perfect, but

they defend him by saying: at least he is paying attention to those who have

long been ignored, at least he has given them the dignity and respect of being heard. I would put it differently: he has been shrewd enough to detect the disgruntlement, to fan the flames of discontent and exploit it ruthlessly. That he is willing to make the people of Middle America worse off, taking away health care from thirteen million Americans, this, in a country already reeling from declining life expectancies, shows that he holds them not in respect but in contempt; and so too for the giving of tax breaks to the rich while actually increasing taxes on the majority of those in the middle. [4](#)

For those who lived through Ronald Reagan, there are striking similarities. Like Trump, Reagan exploited fear and bigotry: his was the welfare queen who robbed hard-earning Americans of their money. The “dog-whistle,” of course, was that they were African American. He too showed no empathy for the poor. Reclassifying mustard and ketchup as the two vegetables required for nutritious school lunches would be funny if it weren’t so sad. He too was a hypocrite, combining free-market rhetoric with strong protectionist policies. His hypocrisy entailed euphemisms like “voluntary export restraints”: Japan was given the choice of either curtailing its exports or having its exports curtailed for it. It’s no accident that Trump’s Trade Representative, Robert Lighthizer, got his training as Deputy US Trade Representative under Reagan, forty years earlier.

There are other points of similarity between Reagan and Trump: one is a naked willingness to serve corporate interests, in some cases, the same interests. Reagan engineered a giveaway of natural resources, a fire sale allowing the big oil companies to take out the country's abundance of oil at a fraction of its value. Trump came to power by promising to "drain the swamp" and thus give voice to those who believed that Washington's power brokers had long ignored them. But never has the swamp been muddier than since he took office.

AND YET, for all these similarities, there are some deep differences that have

led to a rift with some of the elders of the Republican Party. Reagan had, of course, surrounded himself with some party hacks, as to be expected; but he also had a number of distinguished public servants, like George Shultz, in key positions of power (Shultz served for Reagan, at different times, as secretary of state and secretary of treasury.)⁵ These were people for whom reason and truth mattered, who saw climate change, for instance, as an existential threat, and who believed in America's position as a global leader. They, like members of all administrations before and after, would be embarrassed in being caught in an outright lie. While they might try to shade the truth, truth meant something. Not so for the current inhabitant of the White House and those who surround him.

REAGAN KEPT UP at least the façade of reason and logic. There was a theory

behind his tax cuts, the supply-side economics to which we referred earlier.

Forty years later, that theory had been disproved over and over again.

Trump and the twenty-first-century Republicans didn't need a theory: they did it because they could.

It is this disdain for truth, for science, for knowledge, and for democracy that sets the Trump administration and similar leaders elsewhere apart from Reagan and other conservative movements of the past. Indeed, as I explain, Trump is in many ways more a revolutionary than a conservative. We may understand the forces that make his distorted ideas resonate with so many Americans, but that doesn't make them any more attractive, or any less dangerous.

THE 2017 TRUMP TAX "REFORM" illustrates how far the country has shifted from

previous traditions and norms. Tax reform typically entails simplifying, eliminating loopholes, making sure that no one gets away without paying their fair share, and ensuring that taxes are adequate to pay the country's bills. Even Reagan, in his 1986 tax reform, made an appeal to tax simplification. The 2017 tax bill, by contrast, added a whole new set of complexities, and left most of the gaping loopholes intact, including one by

which those working in private equity funds manage to pay a maximum 20 percent tax rate rather than the rate, almost twice as high, paid by other working [Americans](#).⁶ It repealed the minimum tax designed to ensure that individuals and corporations not make *excessive* use of loopholes, and pay at least a minimum percentage of their income in taxes.

This time, there was no pretense that the deficit would fall; the only question was by how much it would increase. By late 2018, estimates were that the government would have to borrow a record amount of more than \$1 trillion in the next year. ⁷ Even as a percentage of GDP, it was a record for the country at a time when it was neither in war nor in recession. With the economy approaching full employment, the deficits were clearly counterproductive, as the Federal Reserve would have to increase interest rates, discouraging investment and growth; and yet only one Republican (Senator Rand Paul of Kentucky) made more than a peep in objecting.

Outside the American political system, however, the criticism came from all corners. Even the International Monetary Fund, always loathe to criticize the US, a country whose voice has long been dominant in that body, weighed in on the country's fiscal irresponsibility.⁸ Political observers were stunned at the magnitude of the hypocrisy—when the economy really needed a stimulus, a fiscal boost, in the aftermath of the 2008 crisis,

Republicans had said that the country couldn't afford it, that it would lead to intolerable deficits.

The Trump tax bill was born out of the deepest political cynicism. Even the pittance this Republican-devised plan threw to ordinary citizens, small reductions in taxes for the next few years, were temporary. The party strategy seemed predicated on two hypotheses, which, if true, bode poorly for the country: that ordinary citizens are so shortsighted that they will focus on the small reductions in their taxes now, ignoring their temporary nature, and the fact that for a majority in the middle taxes would increase; and that what really matters in American democracy is money. Keep the rich happy and they will shower the Republican Party with contributions, and the contributions will buy the votes necessary to sustain the policies. It showed how far America had descended from the idealism upon which it was founded.

The blatant attempts at voter suppression and unbridled gerrymandering, the undercutting of democracy, also set the current administration apart. It's not that these things weren't done in the past—unfortunately, they are almost part of America's tradition—it's that they haven't been done with such ruthlessness, with such precision, and so baldly.

Perhaps most importantly, leaders of the past, of both parties, have tried to unite the country. After all, they swore to uphold the Constitution, which begins with “We the People . . .” Underlying this was a belief in the principle of the Common Good. Trump has, by contrast, set about exploiting divisions and making them larger.

The civility required to make a civilization work has been thrown aside, along with any pretense of decency either in language or action.

OF COURSE, the country and the world find themselves in a far different place

than they were four decades ago. Then, we were just beginning the process of deindustrialization, and had Reagan and his successors undertaken the right policies, perhaps the devastation we see in America’s industrial hinterland wouldn’t be what we see today. We were also in the early days of the Big Divide, the huge divisions between the country’s 1 percent and the rest. We had been taught that, once a country reaches a certain stage of development, inequality shrinks—and America had exemplified that theory.⁹ In the years after World War II, every part of our society had prospered, but the incomes of those at the bottom grew faster than those at the top. We had created the greatest middle-class society the world had ever seen. By the election of 2016, by contrast, inequality had reached levels not seen since the Gilded Age at the end of the nineteenth century.

A LOOK AT where the country is today and where it was four decades ago makes it clear that as dysfunctional and ineffective as Reagan's policies may have been in his day, Trumponomics is even more poorly suited for today's world. We couldn't then have gone back to the seemingly idyllic days of the Eisenhower administration; even then, we were moving from an industrial economy to a service-sector economy. Today, forty years on, such aspirations seem totally untethered to any sense of reality.

America's changing demographics, though, have put those looking to this "glorious" past—a past from whose prosperity large fractions, including women and people of color, were excluded—in a democratic dilemma. It's not only that a majority of Americans will soon be people of color, or that a twenty-first-century world and economy can't be reconciled with a male-dominated society. It's also that our urban centers, whether in the North or the South, in which a majority of Americans live, have learned the value of diversity. Those living in these places of growth and dynamism have learned too of the value of cooperation and seen the role that government can, and must, play if there is to be shared prosperity. They've shredded the shibboleths of the past, sometimes almost overnight. But if this is so, the only way in a democratic society for the minority—whether it's large corporations trying to exploit consumers, banks trying to exploit

borrowers, or those mired in the past trying to recreate a bygone world—to maintain their economic and political dominance is by suppressing democracy, in one way or another.

It doesn't have to be this way—it doesn't have to be that America is a rich country with so, so many poor people, with so many people struggling to get by. While there are forces—among them, changes in technology and globalization—that are increasing inequality, the markedly different patterns across countries demonstrate that policies matter. Inequality is a choice. It is not inevitable. But unless we change our current course, inequality is likely to become greater and our growth is likely to remain mired at its current low levels—itself something of a puzzle, given that we are supposed to be the most innovative economy in the most innovative era in the history of the world.

Trump doesn't have a plan to help the country; he has a plan to continue the robbery of the majority by those at the top. This book shows that the Trump agenda and that of the Republican Party is likely to worsen all the problems confronting our society—increasing the economic, political, and social divide, shortening further life expectancies, worsening the country's finances, and leading the country to a new era of ever slower growth.

Trump can't be blamed for many of our country's problems, but he has

helped crystallize them: the divides were there for any demagogue to exploit. If Trump hadn't entered the scene, in a few years' time, some other demagogue would have. As we look around the world, there is an ample supply—Le Pen in France, Morawiecki in Poland, Orbán in Hungary, Erdogan in Turkey, Duterte in the Philippines, and Bolsonaro in Brazil. While these demagogues are all different, they share a disdain for democracy (Orbán talked proudly of the virtues of *illiberal* democracies), with its rule of law, free media, and independent judiciary. They all believe in “strongmen”—in themselves—a cult of the personality that has gone out of fashion in most of the rest of the world. And they all seek to blame their problems on outsiders; they are all nativist nationalists championing the innate virtues of their people. This generation of autocrats and would-be autocrats seems to widely share a crudeness, in some cases open bigotry and misogyny.

Most of the problems I've discussed plague other advanced countries; but as we shall see, America has led the way, with more inequality, worse health, and a greater divide than elsewhere. Trump serves as an important reminder to others of what can happen if these sores are left to fester for too long.

BUT, AS THE OLD saw goes, you can't beat something with nothing. So too in

economics: one can only beat a bad plan by showing that there is an alternative. Even if we hadn't fallen into the current morass, there was a need for an alternative vision to the one the country, and much of the world, had embraced for the past three decades. This view of society put the economy at the center; and it viewed the economy through the lens of "free" markets. It pretended to be based on advances in our understanding of markets, but the truth was just the opposite: advances in economics over the past seventy years had identified the limits of free markets. Of course, anyone with open eyes could have seen this for themselves: episodic unemployment, sometimes massive, as in the Great Depression and pollution so bad in some places that air was unbreathable were just the two most obvious "proofs" that markets on their own don't necessarily work well.

My objective here is first and foremost to advance our understanding about the real sources of the wealth of the nation, and of how as we strengthen the economy we can be sure that its fruits will be equitably shared.

I present here an alternative agenda to those put forward by Reagan on the one hand and Trump on the other, an agenda based on the insights of modern economics, one which I believe will lead us to shared prosperity. In

doing so, I will clarify why neoliberalism, the ideas based on unfettered markets, failed; and why Trumponomics, the peculiar combination of low taxes for the rich and financial and environmental deregulation with nativism and protectionism—a highly regulated globalization regime—will also fail.

Before embarking on the journey, it might be useful to summarize the modern understanding of economics upon which much of this agenda depends. [10](#)

First, markets on their own will fail to achieve shared and sustainable prosperity. Markets play an invaluable role in any well-functioning economy and yet they often fail to produce fair and efficient outcomes, producing too much of some things (pollution) and too little of others (basic research). And as the 2008 financial crisis showed, markets on their own are not stable. More than 80 years ago, John Maynard Keynes explained why market economies often have persistent unemployment and taught us how government could maintain the economy at or near full employment. If there are large discrepancies between the social returns of an activity—the benefit to society—and the private returns to the same activity—the benefit to an individual or company—markets alone will not do the job. Climate change represents the example *par excellence*: the global social

costs of carbon emissions are enormous—excessive emissions of greenhouse gases present an existential threat to the planet—and far exceed the costs borne by any firm, or even any country. Either through regulations or charging a price for carbon emissions, carbon emissions have to be curbed.

Nor do markets work well when information is imperfect and some key markets are absent (for instance, for insuring important risks, like that of unemployment); or when competition is limited. But these market “imperfections” are pervasive, and of course, especially important in certain areas, like finance. And so too, markets won’t produce enough of what are called “public goods,” like fire protection or national defense—goods whose use is easily shared by the entire population and hard to charge for in any way other than taxes. To achieve a better functioning economy and society, with citizens who feel more prosperous and secure, government needs to spend money, such as in providing better unemployment insurance and financing basic research; and regulate, to keep people from harming others. Capitalist economies have thus always involved a blend of private markets and government—the question is not markets *or* government, but how to combine the two to best advantage. When applied to the subject of this book, there is a need for government action to achieve an efficient and

stable economy with rapid growth, and to ensure that the fruits of that growth are shared fairly.

Secondly, we need to recognize that the wealth of a nation rests on two pillars. Nations grow wealthier—achieving higher standards of living—by becoming more productive, and the most important source of increases in productivity is the result of increases in knowledge. Advances in technology rest on scientific foundations provided by government-funded basic research. And nations grow wealthier as a result of good overall organization of society, which allows people to interact, to trade and to invest with security. The design of good societal organization is the product of decades of reasoning and deliberation, empirical observations on what has worked and not. It has led to views about the importance of democracies with the rule of law, due process, checks and balances, and a host of institutions involved in discovering, assessing, and telling the truth. Third, one must not confuse the wealth of a nation with the wealth of particular individuals in that country. Some people and companies succeed with new products that consumers want. That is the good way to become wealthy. Others succeed by using their market power to exploit consumers or their workers. This is nothing more than a redistribution of income; it does not increase the nation's overall wealth. The technical term in

economics is “rent”—rent-seeking is associated with attempting to get a large share of the nation’s economic pie, in contrast with wealth creation, which strives to increase the size of the pie. Policymakers should zero in on any market in which there are excessive rents because they are a sign that the economy could perform more efficiently: the exploitation inherent in excessive rents actually weakens the economy. A successful fight against rent-seeking results in redirecting resources into wealth creation.

Fourth, a less divided society, an economy with more equality, performs better. Particularly invidious are inequalities based on race, gender, and ethnicity. This is a marked shift from the view that was previously dominant in economics, which held that there was a trade-off, that one could only have more equality by sacrificing growth and efficiency. The benefits of reducing inequality are especially large when inequality reaches the extremes that it has in America and when it is created in the ways that it is, for instance, through exploitation of market power or discrimination. Thus, the goal of increased income equality does not come with a bill attached. We also need to abandon the mistaken faith in trickle-down economics, the notion that if the economy grows, everyone will benefit. This notion underpinned the supply-side economics policies of Republican presidents from Ronald Reagan on. The record is clear that the benefits of growth

simply do not trickle down. Look at the broad swath of the population in America and elsewhere in the advanced world living in anger and despair after decades of the near stagnation in their incomes produced by supply-side policies, even as GDP has increased. Markets on their own won't necessarily help these people, but there are government programs that can make a difference.

Fifth, government programs to achieve shared prosperity need to focus both on the distribution of market income—what is sometimes called pre-distribution—and redistribution, incomes that individuals enjoy after taxes and transfers. Markets don't exist in a vacuum; they have to be structured, and the way we structure them affects both the distribution of market income and growth and efficiency. Thus, laws that allow abuses of corporate monopoly power or that enable CEOs to take for themselves large fractions of corporate income lead to more inequality and less growth.

Achieving a fairer society requires equality of opportunity, but that in turn requires greater equality of incomes and wealth. There will always be some transmission of advantage across generations, so that excessive inequalities of income and wealth in one generation translate into high levels of inequalities in the next. Education is part of the solution, but only part. In the United States there is greater inequality in educational opportunity than

in many other countries, and providing better education for all could reduce inequality and increase economic performance. Compounding the effects of inequalities in educational opportunity, today's excessively low inheritance taxes mean that the United States is creating an inherited plutocracy.

Sixth, because the rules of the game and so many other aspects of our economy and society depend on the government, what the government does is vital; politics and economics cannot be separated. But economic inequality inevitably gets translated into political power, and those with political power use it to gain advantage for themselves. If we don't reform the rules of our politics, we make a mockery of our democracy, as we evolve into a world more characterized by one dollar one vote than one person one vote. If we, as a society, are to have an effective system of checks and balances checking the potential abuses of the very wealthy, we have to create an economy with greater equality of wealth and income.

Seventh, the economic system toward which we have veered since the early 1970s—American-style capitalism—is shaping our individual and national identities in unfortunate ways. What is emerging is in conflict with our higher values—the greed, selfishness, moral turpitude, willingness to exploit others, and dishonesty that the Great Recession exposed in the financial sector are evidenced elsewhere, and not just in the United States.

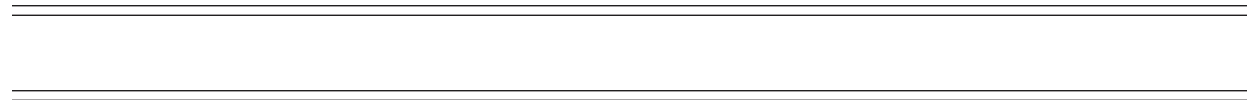
Norms, what we view as acceptable behavior or not, have been changing in ways that undermine social cohesion, trust, and even economic performance.

Eighth, while Trump and nationalists elsewhere in the world seek to blame others—migrants and bad trade agreements—for our plight, and especially that of those suffering from deindustrialization, the fault lies within ourselves: we could have managed the process of technological change and globalization better, so that as individuals lost jobs, most got new jobs elsewhere. Going forward, we will have to do better, and I'll describe how that can be done. Most importantly, though, isolationism is not an option. We live in a highly interconnected world and thus have to manage our international relations—both economic and political—better than we have in the past.

Ninth, there is a comprehensive economic agenda that would restore growth and shared prosperity. It combines taking down impediments to growth and equality, such as those posed by corporations with excessive market power, and restoring balance, for instance, giving more bargaining power to workers. It entails providing more support for basic research and more encouragement to the private sector to engage in wealth creation rather than rent-seeking.

The economy, of course, is a means to an end, not an end in itself. And the middle-class life that seemed a birthright of Americans in the years after World War II seems to be slipping out of the reach of a large swath of the country. We are a far richer country now than we were then. We can afford to ensure that this life is attainable for the vast majority of our citizens. This book shows how this can be done.

Finally, this is a time for major changes. Incrementalism—minor tweaks to our political and economic system—are inadequate to the tasks at hand. What are needed are dramatic changes of the kind called for by this book. But none of these economic changes will be achievable without a strong democracy to offset the political power of concentrated wealth. Before economic reform there will have to be political reform.



[PART I](#)

[LOSING THE WAY](#)

A house divided against itself cannot stand.

—MARK 3:25; ABRAHAM LINCOLN

[CHAPTER 1](#)

[Introduction](#)

That things are not going well in the US and in many other advanced countries is a mild understatement. There is widespread discontent in the land.

It wasn't supposed to be this way, according to the dominant thinking in American economics and political science in the last quarter century. After the fall of the Berlin Wall on November 9, 1989, Francis Fukuyama declared *The End of History*, as democracy and capitalism at last had triumphed. A new era of global prosperity, with faster-than-ever growth, was thought to be at hand, and America was supposed to be in the lead. [1](#)

By 2018, those soaring ideas seem finally to have crashed to Earth. The 2008 financial crisis showed that capitalism wasn't all that it was supposed to be—it seemed neither efficient nor stable. Then came a rash of statistics showing that the main beneficiaries of the growth of the last quarter century were those at the very top. And finally, anti-establishment votes on both sides of the Atlantic—Brexit in the United Kingdom and the election of Donald Trump in the United States—raised questions about the wisdom of democratic electorates.

Our pundits have provided an easy explanation, correct as far as it goes. The elites had ignored the plight of too many Americans as they pushed for globalization and liberalization, including of financial markets, promising

that all would benefit from these “reforms.” But the promised benefits never materialized for most citizens. Globalization hastened deindustrialization, leaving behind a majority of citizens, especially the less educated, and of these, especially the men. Financial market liberalization led to the 2008 financial crisis, the worst economic downturn since the Great Depression that began in 1929. Yet while tens of millions around the world lost their jobs and millions in America lost their homes, none of the major finance executives who brought the global economy to the brink of ruin were held accountable. None served time; rather, they were rewarded with mega-bonuses. The bankers were rescued, but not those they had preyed upon. Even if economic policies successfully avoided another Great Depression, it is not a surprise that there have been political consequences [of this unbalanced rescue.2](#)

Hillary Clinton’s referring to those in the deindustrialized parts of the country supporting her opponent as the “deplorables” may have been a fatal political error (saying that was itself deplorable): to them, her words reflected the cavalier attitude of the elites. A series of books, including J. D. Vance’s *Hillbilly Elegy: A Memoir of a Family and Culture in Crisis*[3](#) and Arlie Hochschild’s *Strangers in Their Own Land: Anger and Mourning on the American Right* [4](#) documented the feelings of those who had experienced

deindustrialization and the many others who shared their discontent, showing how distant they were from the country's [elites](#).⁵

One of Bill Clinton's 1992 campaign slogans was, "It's the economy, stupid." That's an oversimplification, and these studies suggest why: people want respect, they want to feel that they are being listened to. ⁶ Indeed, after more than a third of a century of lectures by Republicans that government can't solve any problems, people don't expect government to solve theirs. But they do want their government to "stand up" for them—whatever that means. And when it does stand up for them, they don't want the government to castigate them as "those who have been left behind." That's demeaning. They've made hard choices in an unfair world. They want some of the inequities to be addressed. However, in the 2008 crisis, one created by elite-driven policies of financial market liberalization, government seemed to stand up just for the elites. That, at least, was a narrative that came to be believed, and as I will make clear, there is more than a grain of truth in it. ⁷

While President Clinton's slogan may have oversimplified things by suggesting that economics was *everything*, it may not have oversimplified by much. Our economy hasn't been working for large parts of the country. Meanwhile, it has been enormously rewarding for those at the very top.

Indeed, it is this deepening divide that is at the root of the country's current predicament, and that of many other advanced countries.

OF COURSE, it is not just economics that has been failing but also our politics.

Our economic divide has led to a political divide, and the political divide has reinforced the economic divide. Those with money and power have used their power in politics to write the rules of the economic and political game in ways that reinforce their advantage.

The United States has a very small elite, controlling an increasing share of the economy, and a large and increasing bottom, with almost no [resources](#)⁸—[forty](#) percent of Americans can't cover a four-hundred-dollar calamity, whether it's a child getting sick or a car breaking [down](#).⁹ The three richest Americans, Jeff Bezos (Amazon), Bill Gates (Microsoft) and Warren Buffet (Berkshire Hathaway), are worth more than the bottom half of the US population combined, testimony to how much wealth there is at [the top and how little there is at the bottom](#).¹⁰

Buffett, the legendary billionaire investor, got it right when he said, "There is a class warfare, all right, but it's my class, the rich class, that's making war, and we're winning." [11](#) He said it not belligerently; he said it because he thought it was an accurate description of the state of America. And he made clear he thought it was wrong, even un-American.

Our country began with a representative democracy, where the Founding Fathers worried about the possibility of the majority oppressing the minority. Thus, they put safeguards in the Constitution, including limits on what the government could [do](#).¹² Over the more than two hundred subsequent years, however, things have evolved. Today the US has a political minority that, if not oppressing the majority, is at least dominating it, thwarting the majority from doing what would be in the interests of the country as a whole. A vast majority of the electorate would like to see better gun control, a higher minimum wage, more stringent financial regulation and better access to health care and to a college education, without burdensome debt. A majority of Americans voted for Al Gore over George Bush, for Hillary Clinton over Donald Trump. A majority of Americans has repeatedly voted for Democrats for the House of Representatives, yet partially because of gerrymandering, the Republicans have nonetheless typically retained control—in 2018, at last, with enough of a lopsided vote, the Democrats regained control. An overwhelming majority of Americans voted for Democratic senators, [13](#) and yet, because states with few people like Wyoming have the same two senators that our most populous states, New York and California, have, the Republicans have maintained control over the Senate, so important because of the role it plays in approval of

Supreme Court justices. Regrettably, the Court has ceased being a fair arbiter and interpreter of the Constitution, and become just another battlefield in which politics plays out. Our Constitutional safeguards haven't been working for the majority, as a minority has come to dominate. The consequences of this misshapen economy and polity go well beyond economics: They are affecting not just our politics, but the nature of our society and identity. An unbalanced, selfish, myopic economy and polity leads to unbalanced, selfish, and shortsighted individuals, reinforcing the weaknesses in our economic and political [system.14](#) The 2008 financial crisis and its aftermath exposed many of our bankers as suffering from what could only be called moral turpitude, as they displayed high levels of dishonesty and a willingness to take advantage of the vulnerable. These lapses are all the more stunning in a country whose political discourse for decades now has been so obsessed with “values.”

TO UNDERSTAND HOW we can restore shared growth, we need to begin by

understanding the true sources of our nation's—or any nation's—wealth.

The true sources of wealth are the productivity, creativity, and vitality of our people; the advances of science and technology that have been so marked over the past two and a half centuries; and the advances in economic, political, and social organization that have occurred over the same period,

including the rule of law, competitive, well-regulated markets, and democratic institutions with checks, balances, and a broad range of “truth-telling” institutions. These advances have provided the basis of the enormous increases in standards of living that have occurred over the past two centuries.

The next chapter describes, however, two disturbing changes that have emerged over the past four decades, which we have already noted: growth has slowed, and incomes of large parts of the population have stagnated or even declined. A large divide has opened up between the very top and the rest.

Describing the trajectory that our economy and society have taken is not enough. We have to understand better the power of the ideas and interests that have taken us so far off course for the past four decades, why they had such a hold over so many, and why they are so fundamentally wrong.

Leaving the economic and political agenda to be set by the corporate interests has led to more concentration of economic and political power, and it will continue to do so. Understanding why our economic and political systems have failed us is the prologue to showing that another world is possible.

This is the hopeful note: there are easy reforms—easy economically,

though not politically—that could lead to greater shared prosperity. As we’ll see, we can create an economy more consonant with what I believe are widely shared basic values—not the greed and improbity so evidenced by our bankers, but the higher values so often expressed by our political, economic, and religious leaders. Such an economy will shape us—make us more like the individuals and society to which we aspire. And in doing so, it will enable us to create a more humane economy, one capable of delivering for the vast majority of our citizens the “middle-class” life to which they aspire, but which has increasingly become out of reach.

The Wealth of Nations

Adam Smith’s famous book of 1776, *The Wealth of Nations*, is a good place to start for understanding how nations prosper. It is usually thought of as the beginning of modern economics. Smith rightly criticized mercantilism, the economic school of thought that dominated Europe during the Renaissance and the early industrial period. Mercantilists advocated exporting goods in order to get gold, believing that this would make their economies richer and their nations more politically powerful. Today, we might chuckle at these foolish policies: having more gold sitting in a vault doesn’t provide higher standards of living. Yet similar misperceptions are prevalent today—especially among those who argue that exports must exceed imports, and

pursue misguided policies aimed at achieving this.

The true wealth of a nation is measured by its capacity to deliver, in a sustainable way, high standards of living for all of its citizens. This in turn has to do with sustained productivity increases, based partly on investments in plants and equipment, but most importantly, in *knowledge*, and in running our economy at full employment, ensuring that the resources we have are not wasted or simply sitting idly by. It most definitely does not have to do with just the accumulation of financial wealth or gold. Indeed, I will show that the focus on financial wealth has been counterproductive—its growth has come at the expense of the real wealth of the country, helping to explain the slowdown of growth in this era of financialization.

Smith, writing at the dawn of the industrial revolution, could not have fully appreciated what gives rise to the real wealth of nations today. Much of Great Britain's wealth at the time and in the subsequent century derived from its exploitation of its colonies. Smith, however, focused neither on exports nor the exploitation of colonies, but on the role of industry and commerce. He talked about the advantages that larger markets gave for specialization. [15](#) This was good as far as it went, but he did not address the basis of the wealth of a nation in a modern economy: He did not talk about research and development, or even advances in knowledge as a result of

experience, what economists call “learning by doing.” [16](#) The reason was simple: advances in technology and learning played little role in the eighteenth-century economy.

For centuries before Smith wrote, standards of living had been [stagnant](#).[17](#) Slightly after Smith, the economist Thomas Robert Malthus described how an increasing population would ensure that wages were kept at a subsistence level. If wages ever rose above the subsistence level, the population would expand, driving the wage back down to subsistence. There simply was no prospect of increasing standards of living. Malthus turned about to be quite wrong.

The Enlightenment and its aftermath

Smith himself was part of a great intellectual movement of the late eighteenth century called the Enlightenment. Often associated with the scientific revolution, the Enlightenment was built on developments over the preceding centuries, beginning with the Protestant Reformation. Before the sixteenth-century Reformation, initially led by Martin Luther, truth was revealed, ordained by authorities. The Reformation questioned the authority of the Church, and in a thirty-year war that began around 1618, Europeans fought over alternative paradigms.

This questioning of authority forced society to ask and answer: How do

we know the truth? How can we learn about the world around us? And how can and should we organize our society?

A new epistemology arose, which governed all aspects of life aside from the spiritual world: that of science, with its system of trust with verification, where each advance rested on earlier research and the progress of those who had come [before](#).¹⁸ Over the years universities and other research institutions arose to help us judge truth and discover the nature of our world. So many of the things that we take for granted today, from electricity, to transistors and computers, to the smartphone, lasers, and modern medicine, are the result of scientific discovery, undergirded by basic research. And it's not just these hi-tech advances: even our roads and our buildings rest on scientific advances; without them, we couldn't have skyscrapers and superhighways, we couldn't have the modern city.

THE ABSENCE OF royal or ecclesiastical authority to dictate how society should be organized meant that society itself had to figure it out. One couldn't rely on authority—either on Earth or above—to ensure that things worked out well, or as well as they could. One had to create systems of governance. Discovering the social institutions that would ensure the well-being of society was a more complicated matter than discovering the truths of nature. In general, one couldn't do controlled experiments. A close study

of past experiences could be informative, however. One had to rely on reasoning and discourse—recognizing that no individual had a monopoly on our understandings of social organization. Out of this reasoning came an appreciation of the importance of the rule of law, due process, and systems of checks and balances, supported by foundational values like justice for all and individual liberty. [19](#)

Our system of government, with its commitment to fair treatment of all, required ascertaining the truth. [20](#) With systems of good governance in place,

it is more likely that good and fair decisions are made. They may not be perfect, but it is more likely that they will be corrected when they are flawed.

Over time, a rich set of truth-telling, truth-discovering, and truth-verification institutions evolved, and we owe to them much of the success of our economy and our democracy. [21](#) Central among them is an active media. Like all institutions, it is fallible; but its investigations are part of our society's overall system of checks and balances, providing an important public good.

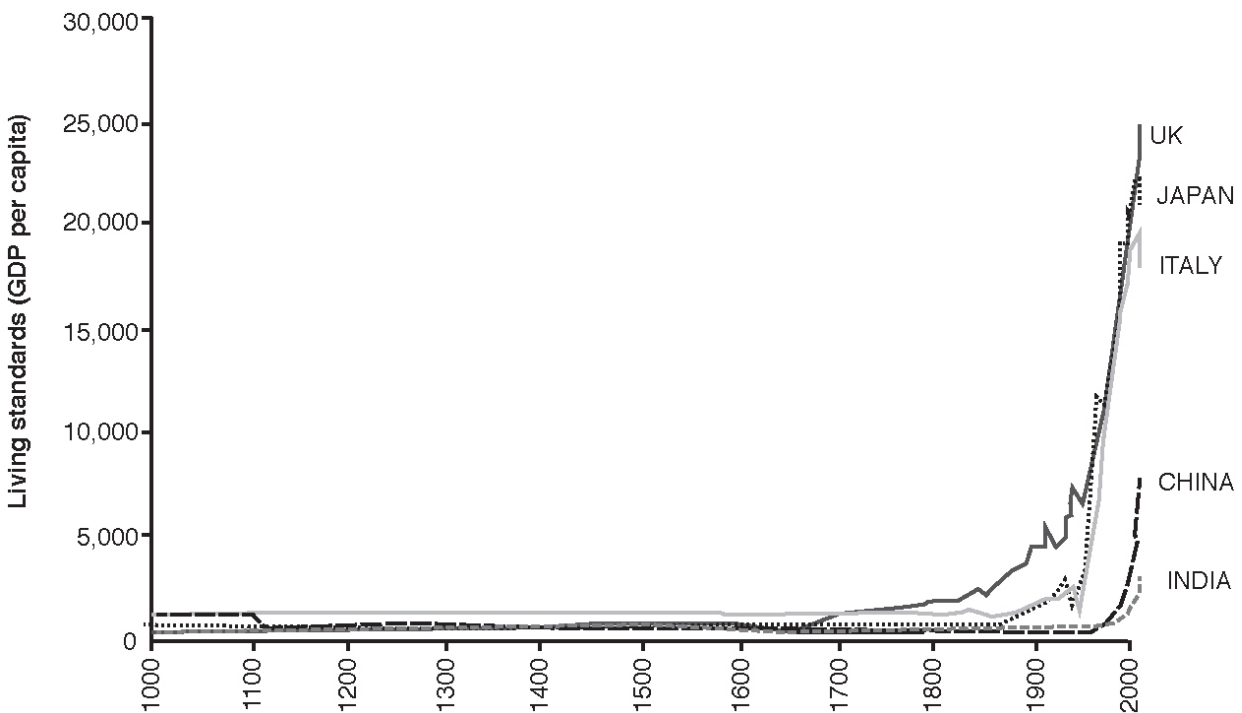
The advances in technology and science [22](#) as well as changes in social, political, and economic organization associated with the Enlightenment led to output increases that outpaced increases in population, so per capita

income started to increase. Society learned how to curb population growth, and in advanced countries, increasingly, people decided to limit family size, especially as living standards rose. The Malthusian curse had been lifted. Thus began the enormous increases in standards of living over the past 250 years (illustrated in [Figure 1](#): after centuries in which living standards had largely stagnated, they began to increase rapidly, at first in Europe, toward the end of the eighteenth and beginning of the nineteenth century, but then in other parts of the world, especially after World War II²³) and the increase in longevity from which we have benefited so [much](#).²⁴ It was a dramatic change in the fortunes of humanity. While in the past, most efforts went just to provide the basic necessities of life, now those could be obtained by just [a few hours of work a week](#).²⁵

In the nineteenth century, however, the fruits of this progress were very unequally shared. ²⁶ Indeed, for many, life seemed to be getting even worse. As Thomas Hobbes had put it more than a century earlier, ²⁷ “life was nasty, brutish, and short”—and for many, the industrial revolution seemed to make things, if anything, even worse. Charles Dickens’s novels vividly described the suffering in mid-nineteenth century England.

In the United States, inequality reached new peaks at the end of the nineteenth century—in the Gilded Age, and in the “Roaring Twenties.”

Fortunately, there was a governmental response to these grave inequities: Progressive Era legislation and the New Deal curbed the exploitation of market power and tried to address the failures of the market that had been exposed—including the unacceptable levels of inequality and insecurity to which it had given [rise.28](#) Under President Franklin D. Roosevelt, the US



passed its public old age and disability program (Social Security, officially called OASDI, Old Age, Survivors, and Disability Insurance). Later in the century, President Lyndon B. Johnson provided health care for the aged and waged a war on poverty. In the UK and most of Europe, the State ensured that all had access to health care, and the US became the only major advanced country not to recognize access to medical care as a basic human

right. By the middle of the last century, the advanced countries created what were then called “middle-class societies,” in which the fruits of that progress were shared, at least to a reasonable degree, by a majority of citizens—and were it not for exclusionary labor market policies based on race and gender, even more would have shared in this progress. Citizens led longer and healthier lives and had access to better housing and clothes. The State provided education for their children—thus offering the promise of ever more prosperous lives going forward and greater equality of opportunity. The State also provided them a modicum of security in old age and social protection against other risks such as unemployment and disability.

FIGURE 1: Historical Living Standards

Source: INET

Progress in the market and political institutions that evolved from the eighteenth century on was not always smooth. There were episodic economic crises, the worst being the Great Depression beginning in 1929, from which the US did not fully recover until World War II. Before the war, government provided unemployment insurance for those temporarily out of work. After the war, advanced countries also undertook an obligation to maintain their economies at full employment.

So too, movement in ensuring that the fruits of progress were evenly distributed was not always steady. As we observed earlier in this chapter, things got much worse in the last part of the nineteenth century and in the 1920s, but then improved significantly in the decades after World War II. While all groups saw their incomes grow, the income of those at the bottom grew more rapidly than of those at the top. But then, matters took a very negative turn in the late 1970s and early 1980s. Groups at the bottom started to see their incomes stagnate or even decline as others' soared. For the rich, life expectancies continued to increase, but eventually, for those with less education, they started to decline.

The Counterattack

The progress associated with the Enlightenment always had its enemies. The list now includes religious conservatives, who didn't like ideas like evolution, and some who felt uncomfortable with the tolerance and liberalism preached by the [Enlightenment](#).^{*} To these have been added people who found their economic interests at loggerheads with the findings of science—for instance, the owners of coal companies and their workers who face the prospect of being forced to shut down in the face of overwhelming evidence that they are a major contributor to global warming and climate change. But this coalition of the religious and social

conservatives and those whose self-interest went directly against the scientific findings was not broad enough to attain political power. That power required the support of the broader business community. Its aid came with a quid pro quo, deregulation and tax cuts. In the US, the cement for this alliance is an unlikely president, Donald Trump. It has been painful to watch the silent support of a bigoted, misogynist, nativist, and protectionist president—so contrary to the values for which many in the business community say they stand—simply so they could get a more business-friendly environment with minimal regulations, and especially a tax cut for themselves and their corporations. Evidently, money in their pockets—greed—trumped all else.

Since launching his campaign, and especially since becoming president, Donald Trump has gone well beyond the traditional “conservative” economic agenda. In some ways, as we have noted, he is in fact revolutionary: he has vigorously attacked the central institutions of our society by which we attempt to acquire knowledge and ascertain the truth. His targets include our universities, the scientific community, and our judiciary. His most vicious attacks, of course, have been on the standard news media, which he labels as “Fake News.” The irony is that for these media, fact-checking plays a central role, while Trump unabashedly lies

[grandly on a regular basis.](#)²⁹

These attacks are not only unprecedented in America, they are also corrosive, undermining our democracy and our economy. And while each piece of the attack is well known, it is critical to understand what motivates them and how broadly they are aimed. It is also important to recognize that what is at issue goes beyond Trump: if he had not hit such a resonant chord, his attacks on the truth-telling institutions would not have had such influence. We also see similar attacks elsewhere. If Trump had not waged this war, someone else would have.

It is especially in this context that the support of the business community for President Trump seems so cynical and disheartening, especially for those who have even faint memories of the rise of fascism in the 1930s. Historian Robert O. Paxton has drawn parallels between Trump's favors to the rich and the strategies behind the Nazis' rise in Germany.³⁰ Just as Trump's core support is a distinct minority, the core support of the fascists was too low to attain power democratically—they never got anything near a majority of votes. What success Trump has achieved has been based on forming a coalition with the business community, just as then: the fascists only came to power because of the support of a broad conservative coalition that included the business community.

Attacks on universities and science

The attacks on our universities have not received the same attention as those on the media, but they are equally dangerous for the future of our economy and democracy. Our universities are the wellspring from which all else comes. Silicon Valley—the center of the country’s innovation economy—is what and where it is because of the advances in technology coming out of two of our great universities, Stanford and the University of California, Berkeley. MIT and Harvard have similarly spawned a great biotech center in Boston. Our country’s entire reputation as the leader in innovation rests on foundations of knowledge emanating from our universities.

Our universities and science research centers have also done more than just advance knowledge: they have attracted to our shores some of our leading entrepreneurs. Many were drawn here by the opportunity to study at these great universities. Between 1995 and 2005, for example, immigrants founded 52 percent of all new Silicon Valley [companies](#).³¹ Immigrants also founded more than 40 percent of the companies on the 2017 US Fortune 500 list. ³²

And yet, Trump tried to slash government funding for basic research in his 2018 budget. ³³ Further, for the first time probably *ever*, in the 2017 Republican tax bill, a tax has been imposed on some of our private not-for-

profit universities—many of which have been central in the advances in knowledge that have been pivotal both in increases in standards of living and creating America's competitive advantage.

Some Republicans criticize our universities for being politically correct and intolerant of bigotry and misogyny. It's true that academics almost universally teach that climate change is real, and many cast doubts about supply-side economics. Universities also do not give equal weight to theories that the world is flat, to the phlogiston theories in chemistry, or to gold bugs in economics. There are some ideas that deservedly do not receive equal weight in higher education. [34](#) It would be malpractice to teach outdated ideas that have been repeatedly disproved by the scientific method. So far, the universities have withstood the siege. But one can only imagine what will happen to America's economy and our standing in the world were Trump and the others waging this war to succeed. Our position in the vanguard of innovation would quickly recede. Already, others are taking advantage of Trump's anti-immigrant and anti-science stance: Canada and Australia, for instance, are actively trying to recruit talented students and create research institutions and laboratories to provide viable alternatives to those of Silicon Valley.

Attacks on the judiciary

In any society, there will be disputes, and when parties disagree, whether it's two individuals, two corporations, or individuals and their government, the task of our courts is to assess the truth, so far as can be ascertained. Almost by definition, the resolution of such disputes is not easy: if it were, the parties could have done it on their own and wouldn't have resorted to costly and time-consuming courts. When courts give rulings that Trump dislikes, he refers to "so-called judges." His disdain for the judiciary is mostly demonstrated by his willingness to appoint thoroughly unqualified judges—one nominee to the US District Court for the District of Columbia, Matthew Spencer Petersen, hadn't even had any trial experience. Petersen withdrew his nomination after humiliating questioning in his confirmation hearing, but he was only the most unqualified of many deeply unqualified Trump appointees.

Explaining the attacks: Self-defense

There is a pattern here. From the perspective of Trump and his supporters, the dangers of all of these truth-telling institutions is that they come to views that contradict the prejudices of Trump, those surrounding him and his party. Such attacks, and an attempt to create another reality, have long been part of fascism, from Goebbels's Big Lie [onwards.35](#) Rather than adapting his views to make them consonant with reality (say, about climate

change), Trump would rather attack those who work to uncover the truth.

That these attacks have such resonance is testimony in part to the failure of our education system. But we cannot blame what is going on solely on that.

We know through advances in behavioral economics and marketing that one can manipulate perceptions and beliefs. Cigarette companies succeeded in using these methods to cast doubt on scientific findings that smoking was bad for health; and firms of all kinds succeed in persuading individuals to buy products that they might not otherwise have bought, that upon deeper reflection, they neither need nor want. If you can sell bad and even dangerous products, you can sell bad and even dangerous ideas—and there are strong economic interests to do so. These insights were picked up and used with vengeance by Steve Bannon and Fox News to change perceptions on a host of topics, from climate change to the inefficiency and inequities of government.

Selling the majority on policies that are against their own interest

That Trump and his clique have an interest in subverting the truth is no surprise. But one has to ask, with so much at stake, including our democracy and the advances in standards of living that have marked the past 250 years, why does this concerted attack on the very institutions and ideas that have done so much for our civilization seem to resonate among so