

BOOK REVIEW

PEOPLE, POWER, AND PROFITS:
PROGRESSIVE CAPITALISM FOR AN
AGE OF DISCONTENT

JOSEPH E. STIGLITZ

NEW YORK: W.W. NORTON, 2019, xxvii + 371 pp.

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Joseph Stiglitz is an eminent economist, but it is evident from *People, Power, and Profits* that he is a moralist as well, and one of a peculiar sort. Early in the book, he says this:

...to answer such questions [about what to do] I have to explain the true source of wealth, 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 creativity and productivity of the nation’s people and their productive interactions with each other... it rests on... institutions broadly referred to as ‘the rule of law, systems of checks and balance, and due process.’ (pp. xiii–xiv)

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One might have been reading Franz Oppenheimer or Albert Jay Nock on the distinction between the political and the economic means. Stiglitz does spoil things a little when he says later on that “the real politik of the twenty-first century” is that those who seek to preserve the “values I articulate” will have to persuade others to follow the policies he suggests. Since *realpolitik* (one word, not two) means politics based on interests rather than ideology, this is confusing. It seems a forgivable slip, though, given Stiglitz’s seeming endorsement of a distinction basic to libertarian thought.¹

In fact, though, Stiglitz means close to the opposite of what libertarians have in mind by the distinction between production and predation. For him, it is greedy capitalists and other private rent-seekers who exploit the people, and the state that maintains values.

Why does he think this? As he sees matters, equality is of fundamental importance: “The American dream of equality of opportunity is a myth: a young American’s life prospects are more dependent on the income and education of his parents than in almost any other advanced country. I tell my students that they have one crucial decision to make in life: choosing the right parent. If they get it wrong, their prospects may be bleak.” (p. 44) To clarify Stiglitz’s point, his objection is not just to the fact that some people have poor prospects, but also to the fact that some people have vastly more income and wealth than others.

How does inequality come about, if, as he says, equality of opportunity is a shared American value? The very well off, in his view, have written the rules in their favor. The government has become their tool. If he is correct, the solution seems obvious. Do we not need to curtail the power of the government? To anticipate an objection, I do not endorse Stiglitz’s commitment to equality. But if you do want equality, and you think that the rich control the government, limits on the state seem required.

Stiglitz is well aware of this contention. He says: “But here’s the rub: the powers that enable government to improve social well-being can be used by some groups or individuals within society to advance

¹ After all, “as Shakespeare put it, ‘to err is human.’” (p. 263, note 20) It was actually Alexander Pope who said that, but never mind: to err is human. (Pope wrote “humane,” a standard spelling for “human” in the eighteenth century.)

their interests at the expense of others. This is sometimes termed ‘government failure,’ in contrast to market failure.” (p. 149) This of course is the familiar contention of the public choice school, ably defended by Randall Holcombe in his excellent *Political Capitalism* (2019)² The problem with attempts to compare market failure with government failure, Stiglitz thinks, is that only market fundamentalists believe that the market can operate without strong government control. “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 rely on unfettered markets for running the economy—had no basis in theory or evidence.” (p. xii). Elsewhere, he writes of a “libertarian dream.” (p. 139)

If we persist and ask why Stiglitz is so convinced of the need for a strong government hand in the economy, we confront a paradox. Stiglitz is best known as an economist for his work on the limitations of the neoclassical model of competitive equilibrium. Concerning the model, he says, “It is not robust—slight changes in assumptions... lead to large changes in results....” (p. 280, note 1) Yet he judges the free market inadequate because it fails to conform to the requirements of this model.

For example, he holds that the growth of knowledge, infrastructure, and even charitable help to the poor are “public goods” that the market cannot on its own produce efficiently according to the criterion used in this model. “This can be put another way: everyone wants to be a free-rider on the efforts of others. They can enjoy the benefits of the public goods provided by others without bearing the cost.” (p. 322, note 4) Much of his assault on the “market power” of monopolies rests on judging them by the standards of a perfect competition model in equilibrium. Prices charged by entrepreneurs that do not quickly revert to the prices that would be set in this model he deems exploitative.

Stiglitz professes great concern for the potential of the poor, but in fact he thinks that most people are irrational and require control by enlightened experts like him. In reviewing a proposal that people should be deemed owners of their personal data but should be able to consent to allowing internet companies to use the data, he says:

² See my review in this issue, pp. 492–497.

Some say, let it be. The individual is freely deciding whether to let others have his data. But there many areas where we as a society decide to interfere in individuals' unfettered decisions. There are other settings where we forbid individuals to engage in behavior that harms only themselves, such as participating in pyramid schemes or selling organs.... Individuals don't really appreciate what is or could be done with their data...." (p. 129)

In another instance, he says: "Firms can also pry wealth from others by taking advantage of their weaknesses—for instance, enticing them to gamble away their wealth or persuading them to borrow at usurious interest rates." (p. 281, note 9)

Because people are so easily deceived by the false information they see on social media, the government needs to guide them to the truth. "We can also attempt to create more discerning consumers of information. Some countries, like Italy, are extending public media education (including about social media), making individuals more aware of assertions that are blatantly false." (p. 133. On p. 321, note 34, he fears that such programs will have only "limited efficacy.")

A substantial number of Stiglitz's complaints against the market are in fact instances of "political capitalism." For example, in a passage that will interest supporters of the Austrian theory of the business cycle, he says: "We evolved into a system of what is called fractional reserve banking, where the amount that banks hold in reserves is just a fraction of what they owe... bankers made a pretty penny lending out money... they could create loans essentially out of thin air... when they fail, taxpayers foot the bill." (p. 111) Why is this a case of market failure? Again, if the government bails out a bank or investment firm that is deemed "too big to fail," this is quintessential political capitalism.

Even if Stiglitz is right that the free market is flawed, though, would he still not need to confront the public choice point? Would not the failures of the market, such as they are, have to be balanced against the failures of the government? Stiglitz does not think so. Talk of "regulatory capture" and the like is misplaced. A dedicated group of experts devoted to public service will act impartially to secure the public good.

Designing a good, efficient regulatory system is difficult, but we've done a remarkably good job of combining expertise with checks and

balances. We want to avoid politicization of the regulatory process as far as possible... This doesn't mean that every rule is ideal... But all human institutions are fallible. We've done a creditable job of creating a framework that works. (pp. 145–46)

Sometimes, Stiglitz's bias is comical in its intensity. Thus, he mocks those in the Reagan era who said that "firms should pursue their shareholder interest," not aim at social responsibility. (p. 112) He tells us that "Milton Friedman the high priest of the Chicago School... was asserting these positions." (pp. 314–15, note 22). Yet later on, he says,

There is no individual abridgment of rights when we restrict corporate contributions [to political campaigns] indeed, one might argue the reverse, I buy a stock on the basis of my judgment of the corporation's economic prospects. It weakens the economy to have to conflate those judgments with whether I agree with the CEO's political judgments. (pp. 169–70)

He excoriates President Trump for his attacks on the judiciary: [T]aking a page from the playbook of despots everywhere... he attacked the courts themselves, undermining confidence in the judiciary and its role as a fair arbiter...." (p. 165) Immediately after saying this, Stiglitz attacks judges appointed by Republicans for their partisan decisions and for "the appointment of a grossly unqualified judge, Clarence Thomas." (p. 165). It is wrong to impugn the integrity of the Court—except, of course, when I do it.

Proposals to "pack" the Court by increasing the number of judges

could lead to a further weakening of America's democratic institutions: each side would be tempted to add further judges to the Court when they could to ensure control of the Court—until the opposing party took power. The Court is already seen to too great an extent as merely another partisan weapon; this act might confirm the perception. (p.167)

Far better would be a constitutional amendment imposing term limits on the justices. Until such an amendment is passed, "the number of positions in the Court should be increased." (p. 167)

Stiglitz perfectly illustrates a famous remark by Joseph Schumpeter: "Capitalism stands its trial before judges who have

the sentence of death in their pockets. They are going to pass it, whatever the defense they may hear; the only success victorious defense can possibly produce is a change in the indictment.”

REFERENCES

Holcombe, Randall G. 2019. *Political Capitalism: How Economic and Political Power Is Made and Maintained*. Cambridge: Cambridge University Press.