Number 53
June 2019

ECONOMIC VIEWPOINT

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Why Have Progressive Economists Seemingly Abandoned Their Economics?

There is a lot being written these days about the failure of market economics and the death of neo-liberalism. This coincides with increasing advocacy of so-called progressive capitalism. At one extreme, we see proponents of a "new monetary theory," which seems to be based on the notion that spending can easily be financed by monetary expansion and there will be few consequences because economic growth will be so strong. While this fantasy needs to be addressed on its own merits and demerits, it is true that serious mainstream economists, such as the highly respected former chief economist of the IMF and president of the American Economics Association, Olivier Blanchard, have noted that with very low interest rates in the U. S., more fiscal expansion may be justified if it produces significantly more growth, and, as a result, national debt-to-GDP doesn't rise.

But the fundamental question is whether market economics is so flawed that we need to find new guiding ideologies. This is almost what Nobel laureate Joseph Stiglitz espouses as part of progressive capitalism (*Project Syndicate*, May 30, 2019). Prof. Stiglitz has been right on many issues—he was among the first to highlight the plight of those whom globalization left behind, and he was among the first to highlight the pernicious effects of rapidly rising inequality in the U. S. However, I believe that he is mistaken in arguing for a radical rethink based on the view that markets have largely malfunctioned. I also harbor doubts that the role of government he espouses—one that would, inter alia, ensure that no citizen is denied economic security, access to work and a living wage, health care, adequate housing, secure retirement and quality education for his offspring—is feasible. Let me explain why, but first let's review what has gone wrong with the current capitalist system, say in the United States.

It is undoubtedly true that a) regulation has become much weaker and that new types of quasi-monopolies have arisen, b) there is an asymmetry between what capital and the owners of capital are allowed to do versus what wage-earners can do, c) political influence has risen to the point where taxation is no long progressive, and income and wealth are very highly concentrated, d) politics has been captured by many special interests beyond what was the norm for many decades, and that therefore e) a large portion of the population, let's call them the broadly defined middle class, has suffered a perceptible decline in its relative, if not absolute, welfare. How did this happen? Who allowed it to happen? Is it fixable or do we "throw the baby out with the bathwater?"

One may well argue that these market failures, political failures and social failures are self-inflicted rather than pre-ordained. Government's role is to ensure competition, protect the consumer and ensure equality of opportunity. Government's actions are legitimized if and only if they are insulated from political capture. Governments can, if they avoid capture, enact broadly supportive policies that reflect society's common goals and that produce widely shared economic benefits. Market fails and outcomes are flawed when governments cease to perform these basic functions or perform them poorly.

As Professors Akerlof and Shiller wrote in their 2015 book, *Animal Spirits*, capitalism works best when balanced by effective regulation, socially responsible taxation and redistribution, and effective public policy. When market economics has failed us, it is when these principles have been compromised. The most successful market economies, such as Sweden, Singapore or Switzerland, have managed to create efficient economies and more equal societies. They have all done so with slightly different market-based systems, but with commonly effective governments to capture the benefits of the market without being captured by them.

A dramatic ideological shift towards more government-centric policies may not be either desirable or feasible. What is needed in many countries, such as the U.S., for example, is a restoration of balance between market-driven outcomes and public policies that are in the broader national interest. For the largest corporations to pay no corporate income tax is wrong but fixable. For new technology companies to snuff out competition and purchase their competitors is bad economics and fixable through proper regulation, as Noble laureate Jean Tirole has argued. For bailouts to be given to the financial sector but denied to mortgage-holders who were duped into taking them before the 2008 Great Recession was to place corporate interests above national interests, and that unfairness was remediable. We can find public policy interventions for many of the market misbehaviors that we are seeing, but this requires the political will to separate political influence from public policy for the common good.

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