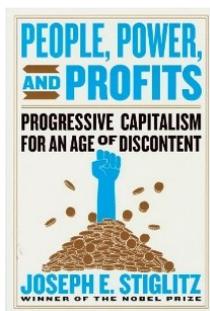


## BOOK REVIEW



Joseph E Stiglitz:  
***People, Power and Profits:  
Progressive Capitalism for  
an Age of Discontent***

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## INTRODUCTION

Joseph Eugene Stiglitz, is an American economist and a professor at Columbia University and former Senior Vice President and Chief Economist of the World Bank. He is the recipient of the Nobel Memorial Prize in Economics in 2001. His book on 'People, Power, and Profits: Progressive Capitalism for an Age of Discontent' which accounts of the dangers of free market fundamentalism is an interesting volume. This book consists of main two parts: Part I titled as 'Losing the Way' includes first seven chapters of total eleven chapters of the book. Part II is titled as 'Reconstructing American Politics and Economics: The Way Forward' that includes the rest of the chapters. All the chapters of this book discuss the drawbacks of current economic and political system in America and a need of political and economic reforms to strengthen the economy and equality.

It is very important to read this book due to several reasons. First, currently America is going through a bad situation due to COVID-19 pandemic and reader will be able to get knowledge about the history of the political economy in United State of America (USA) which led to the current situation. Second, for Sri Lankan readers, this book is important to learn from American economic policies. This book can be used as a role model to avoid

adverse policies and improve and continue some of our policies because there are many similarities between USA and Sri Lankan economic and political situation.

## **CONTENT OF THE BOOK**

Chapter one gives an introduction to this book. The author summarizes the American economy from past to present and critically evaluates the policies of every political regime. He emphasizes that America had a democracy at the beginning and later on economy and polity went well beyond economics. Stiglitz explains the way that American economic divide has led to a political divide and the political divide has reinforced the economic divide. Therefore, in this chapter, he highlights that those with money and power have used their power in politics to write the rules of the economic and political game in ways that strengthening their advantage. Further, he explains how globalization and deindustrialization left a majority of citizens behind, especially the less educated. With this background, Stiglitz shows that wealth is not equally shared and income inequality is very high. Hence, in this book he briefly discusses how America can restore shared growth by understanding the true source of nation's wealth. Further, he mentions that it is worthy to analyse past economic and political agenda to understand the reasons for failure and why it does fundamentally wrong. Further Stiglitz discusses the alternative theories of wealth of the nation.

Chapter two critically discusses the slow growth and inequalities in America emerged over the past decades. The author explains the way that growth of the American economy slowed around 1980s and declined without recognizing the way that economy was failing to deliver prosperity for large part of the population. Stiglitz emphasizes that both policy makers and economists have not paid their attention on inequality. This chapter points out that the American economy and many other advanced countries has not been working well because of low growth, stagnating income and growing inequality which are deeply interrelated reflecting low living standards of the most of citizens. The author mentions that America has not been doing well in every dimensions since it didn't grasp the true source of the wealth of a nation. He explains the way that low investment of human capital and physical capital naturally translate into lower rates of growth of productivity and low standards of living in future generation. The author deeply explains the different dimensions of inequalities existing in America: inequality in the use of environment and resource, inequality of wealth, income, health, education, opportunity, gender and race. Inequality of health is critical in USA because of weak policies regarding health sector. According to him, throughout the history of America, inequalities in race, ethnicity and gender have been critical especially in the labor market, education, opportunities, wealth and social and cultural aspects. Inequality of wealth has mostly influenced on opportunities. Inequality in opportunity is other dimension of inequality that describe in this chapter. The author explains that opportunities depends on the social status rather

than ability or knowledge. Therefore, he mentions that America is wasting its most precious resource: the talents of its young people. He states that the slogan 'leave it to the market' never made sense: one has to structure markets and that entails politics. Further, this chapter points out some key mistakes that America did when they restructure the market. Therefore, he reiterates that America downplayed key factors that were essential to the success of capitalism over the past two hundred and some years.

Chapter three critically explains how market power caused to slow growth and so little of that growth has benefited to ordinary citizens by increasing inequalities in the society. In this chapter, Stiglitz explains that although competitive model provides a good or even adequate description of the American economy long ago, today a few firms have earned a massive profit and continues their domination by creating high inequality. He nicely explains how market power allows firms to exploit consumers by charging higher prices and by taking advantage of consumers in a variety of other ways. Stiglitz critically explains that profit earn from market power has translated into political power and how it caused for weakening unions and the enforcement of competition policy which gives free rein to banks to exploit ordinary citizens. The author also explains how we can use innovation to reduce market power and increase competitiveness. This chapter also explains how economy can create wealth or grabbing wealth by exploiting others. Therefore, the author points out that innovation and learning is the only true source of creating wealth since it positively affects on national income. This chapter also discusses how market power and national income should be divided for labor income, the return to capital and rents according to public policy. Further, Stiglitz explains the big difference between income from work and rents. He highlights that only worker works more the size of the national income increases, but rents are unhelpful to growth and efficiency. The worst situation of rent is that it is harmful to good economic activities by 'crowding out' or by increasing monopoly power. The author further explains the way that the share of labor diminishing, while the share of rents is increasing by weakening of power of workers and their unions and with globalization. Also this chapter describes the evidence of how market power and profit increase in the American economy using innovation of new form of barriers to entry and clever ways of driving out existing competitors. Finally, he deeply explains how the economy can reduce market power and restore competition in the economy from both firms' and consumers' aspects. Further the author mentions the importance of changes required in legal framework to reduce market power.

In the fourth chapter, the author discusses how globalization led, in various ways, to American economic crisis and why it hasn't lived up to its promises. He explains that globalization badly affected on the USA economy through the demand for low skilled labor, imports and exports, interest rate, and reducing tax revenues. The author criticizes that America has mismanaged the globalization and its consequences as well as the consequences of technological progress. Stiglitz mentions that protectionist policies do

not help to solve the problems arise from globalization such as deindustrialization, unemployment and inequality, but those policies caused to worsen them. He explains that the benefits of globalization are not fair for every one even though America increases its Gross Domestic Product (GDP) using comparative advantages. This chapter also describes the nature of twenty first century trade agreements. Over the past sixty years, tariffs have been vastly lowered but current trade negotiations typically focus on other issues including regulation and ‘non-tariff’ trade barriers, intellectual property and investment. Further, he mentions that renegotiation of trade agreements will neither reduce the trade deficit nor led to a return of manufacturing jobs. This is because the trade deficit is determined largely by macroeconomic factors such as monetary and fiscal policy, not by trade agreements. According to him, impact of globalization goes far beyond economics. The author here sketches out an alternative agenda for globalization which will work better for the both rich and poor, but not necessarily for the large multinationals who have taken over the globalization agenda. The author explains the importance of the rule based system for governing international trade and government intervention for correct the bad effect of globalization. Further, he suggests the need of good social protection systems to protect people harmed from globalization.

In chapter five, the author highlights that finance is central to the creation of today’s economic, and social and political malaise. This chapter discusses the financial sector’s misalignment of private and social interest and contagion to the rest of economy. The author explains how inequality increased in the American economy and slowing growth because of financial sector moved away from their central task of traditional intermediation. He highlights that because of financial sector’s shortcomings most talented young people’s knowledge does not contribute to strengthen the real economy. He emphasizes that financial sector should stop harming the rest of society through irresponsible lending, predatory lending, abusive credit card practice and exploitation of market power. Further, Stiglitz critically explains the way that financial sector harmfully affects on economy since banks have refused even to bear the risks associated with bad lending. He mentions that banks use its power not so much to serve society but to extract profit for itself. Hence, he mentions that a government in any country has to take an active role in the financial sector. Further, he highlights the importance of necessary reforms in politics to achieve economic reforms for well-regulated financial system with government intervention to reduce harmful side of the financial sector.

Chapter six explains how new technologies may exacerbate all of the problems that discussed in previous chapters such as jobs, wages, inequality and market power and other two new factors such that privacy and cybersecurity. The author mentions that advances in technology should be a blessing if they enable us to ensure that every one has access to the basic requisites of decent life. This chapter points out that although there are advantages of technological development, those advantages themselves create

disadvantages such as loss of jobs, low wages, numerous abuses, market power, invasion of privacy, and political manipulation. Stiglitz suggests some possible solutions for these problems. The author deeply explains how we can maintain full employment in technologically advanced world using monetary and fiscal policy. Moreover, he mentions that unemployment is a political problem since imposing sufficient fiscal stimulus is politically difficult. To overcome above mentioned issues, the author suggests that government should play a vital role such as assigning ownership of data, regulating how data can be used, assign a minimal price for compensation for a firm using personal data or imposing tax on usage or storage of data. Finally, the author emphasizes that it difficult to solve problems arise from advancement of technology by markets or individuals on their own unless we take strong collective action.

The objective of chapter seven is to explore both the need for and limits of collective action. It emphasizes that collective actions can do far more than individuals working alone. Idea of this chapter is that collective actions should be done through government with all the powers that implied to improve the societal well-being. However, because of the free riding problem, contributions have to be compulsory, that is, there has to be taxation. A well-functioning society thus requires a balance between individual and collective action. Political institutions are complex. One of the strategies of Cooperation and the Right has been to preserve the current imbalance of power by making such collective action more difficult. Political institutions have the power to do well, but also to do harm. Constructing institutions to enhance the likelihood that government will be a powerful force for good has been the challenge confronting democracies from the beginning. This is the challenge confronting US today.

Chapter eight discusses about the way of restoring Democracy in America. America was constructed as a representative democracy. As explained above, but the nation has evolved in practice into a country where a minority seems to wield power over the majority. With this background information, this chapter discusses about three main areas: ensuring fairness in voting, maintaining an effective system of checks and balances in government, and reducing the power of money in politics.

He suggests six reforms to ensure the fairness in voting: every American citizen should vote and every vote should count equally. This chapter further argues that strengthening the system of checks and balances and the role of the professional civil services and independent agencies is highly needed to prevent the agglomeration and abuse of power. The author explains the need of an amendment of term limiting for Supreme Court Justice as the Court has become ever more divided. To a large extent, Supreme Court is making problems. He presents an agenda for reducing the power of money in politics, the greatest falling of the American political system. This is an arena where what is required above all else if the right norms and ethics. American capitalism works against creating the right

norms. Therefore, he calls for a new movement. He highlights the need of re-conceptualizing the national parties along the natural political identities of the twenty first century. In short, two essential reforms discussed in this chapter are 1) we need to do more to curb the influence of money and 2) we also have to reduce the disparities in wealth.

Chapter nine discusses reforms which are necessary to restore growth and social justice and enable most citizen to have middle class life. All of this will be possible if there is more collective action- a greater role for government. This chapter begins with a discussion on growth by restoring the true foundations of wealth described in chapter one. Economic growth depends on two factors: growth in the size of the labor force and increase in productivity, output per year. The anxiety in recent decades is that neither labor force participation nor productivity have been doing well. The author presents some suggestions to increase the labor force participation such as changing the work place to accommodate more women and older workers, forming a healthier population, and higher investment in research. The only way to increase the productivity is more investment in research. Then the chapter goes on to address the challenge of the moment – making the transition from the industrialized economy of the twentieth century to the twenty first century service, innovation, and green economy in ways that maintain jobs and opportunity, provide for better social protection and better care for our aged, sick and disabled and provide better health, education, housing and financial security for all of our citizens.

This chapter explains the role for government in promoting social justice which ensures everyone has a livable income, public education, health, research, and infrastructure; running a good judicial system; and providing a modicum of social protection. For that, income distribution should be more equal through more progressive taxation, transfer, and public expenditure programs. There are many other ways to minimize inequality such as reforming corporate governance laws, passing better labor laws, strengthening and enforcing discrimination and competition laws, increasing minimum wages, and providing wage subsidies and an earned income tax credit. High-quality free public education can be a major force for bringing society together. The author identified that there are three aspects of intergenerational justice that have been given short shrift, and which a progressive agenda needs to correct: lack of investment, despoiling our world with climate change, and large fractions of young people don't have the opportunities. Meanwhile, house prices, relative to incomes, have soared.

Chapter ten discusses about things that are at the core of a decent life: people care about jobs with fair pay and a modicum of security both before and after retirement, about education for their children, about owning a home, and about access to good health care. In each of these areas American style capitalism has failed large swaths of our population.

A central idea in the proposals is the public option. With a public option, the government creates an alternative, basic program to provide products like health insurance, retirement annuities, or mortgages. Competition between the public and private sectors will break the back of market power.

The Affordable Care Act (“Obamacare”) made an important start in ensuring that all Americans have access to health care. He suggests that the government should provide basic health insurance for all. Further, social security system should be revitalized, making sure that it is on sound financial footing, and providing a public option. Part of the revitalization of Social Security would involve expanding the instruments in which it can invest. For example, to invest money in a broad-based equity fund or in bonds to be issued by a newly created Infrastructure Investment Bank. By recognizing the changes in modern technology and information systems, government can create a twenty-first-century mortgage system. And also government could use the internal revenue service (IRS) as a mortgage payments vehicle. America needs, in short, to have a mortgage market with the kind of innovative public option suggested above. Access to universal education is a central part of an agenda ensuring a decent life for all Americans. There are many ways of ensuring the universal access to higher education, lower tuition and publicly provided income contingent loans. The federal government also should provide incentives for states to engage in more equalization of funding between rich and poor communities, and should itself provide more funds to help equalize opportunities among the states. Further, there should be even more special assistance from the federal government to districts with large numbers of poor individuals

Chapter eleven discusses about the way of reclaiming America by summarizing the agenda the author presented in previous chapters and explaining the stronger points, which America has to achieve it. Over more than two centuries, America, based on the shared values and beliefs, has worked well. However, today America has problems such as high income inequality, and the fragility of our democratic norms and institutions. The deeper problems in our economy are unsolved or aggravated weak real wages, growing inequality, poor health, declining life expectancy, weak long-term investment. He further explains that current policies in America will move the country further away from the dynamic and innovative knowledge-based economy.

He mentions that America didn’t get into the present perilous position overnight. There were warnings that things were not going well for large parts of the country, and that if these failings were not addressed, our situation could easily give rise to a demagogue. Past governments chose to ignore these warnings. They got the economics, the politics, and the values wrong. They didn’t understand the true foundations of our well-being rested on the foundations of science, rational enquiry, and discourse, and the social institutions derived from them, including the rule of law based on democratic processes.

The damage that is being done to our economic and political institutions is palpable. It won't be undone overnight: there will be a legacy for a long time. However, in each and every dangerous episodes of American history, they corrected their course. He points out that America has strengthening points to reclaim its position such as efficient government.

This book presents an alternative progressive agenda. It takes at its heart one part of the Preamble of the Constitution, to "promote the General Welfare." He has outlined a platform that he believes can serve as a consensus for a renewed Democratic Party. It can show that the party is united in support of the kind of values. We have to have a sense about that the success of the economy is to be measured not just by GDP but by the well-being of citizens. The new social contract includes the preservation of the environment for future generations, modicum of equity and security, with everyone having a chance at a middle-class life without the blight of discrimination, bigotry, and exclusion, and restoring political and economic power to ordinary people. Thus, among the key terms of this new social contract would be those that provide for justice and opportunity for all, rich and poor, black and white: making the American dream a reality. An agenda focused on fostering progress has to be based on a deep understanding of the sources of the wealth of the nation, commitment to ensuring the advances in technology and globalization are both shaped and managed in ways that can benefit all. In this progressive agenda, government plays a central role, both in ensuring that markets work as they are supposed to, and in promoting the general welfare in ways that individuals on their own, or markets on their own, can't. With the agenda he has proposed, all Americans can attain the life to which they aspire. Incrementalism policies as important as they are as components of an overall strategy, are not up to the challenges America faces today. We need the dramatic change in direction that this book's progressive agenda calls for.

## **SUM UP**

In this book the author wants to explain the reason for failure of economic system and what could be done about it. According to him markets often don't work well and problems growing worse. Inequalities were increasing beyond anything that had been imaginable during the past period. Thus this book tries to answer the question about 'how did American economy get such situation, and what can do to change the course'. According to him part of the answer lying in economic failures which failure to handle well in the deindustrialization process, to tame the financial sector to properly manage globalization and its consequences, and to respond to the growing inequalities. Special feature of this book is that Stiglitz considers both economics and politics in his book, while many other authors have focused only on economics in this regard. He nicely explains both growth has been so anemic and why the fruits of what little growth have been so unequally shared. So this book explains the next step that can be followed by policy makers. This alternative world is founded on reconstructing a realistic future, using

their knowledge of economics and politics, including what they have learned from these failures of recent decades. Properly designed, well-regulated markets, working together with governments and a broad array of civil society institutions, are the only way forward. Further he has emphasized the importance of truly understand the sources of the wealth of the nation, that can be achieved a more dynamic economy with greater shared prosperity. According to his view in this regards it will require government to take the major role.

This book has been written in the hope and faith that an alternative world is possible, and that there are enough Americans who believe this, that working together Americans can reverse this dire trajectory. These include young people who have not yet lost their idealism, those in older generations who still cling to ideals of equality of opportunity and shared prosperity, and those who recall the struggle for civil rights in which so many joined with their hearts and souls.

When he suggests options for his agenda for future development, he takes examples from other countries which is really important. For example, when he suggests options for higher education, he takes examples from Australia. Most importantly, he takes other countries' example which can be applied in America. And also not only he identifies barriers for implications of those policies, but also he points out alternative amendments, required in those policies when they are implemented in America. He laid out an agenda which can be achieved within the financial constrained facing the country today.

He uses the simple language so that non-economist can also understand economics. When he explains the bad and good points of political and economic policies in America and their consequences, he does not use data to support his idea. One may find it as a bad point. However, we believe that is better because he addresses not only academia but also the general readers. Moreover, one might argue that he is against Republican Party and their policies. He does not merely criticize them, but using economics and facts. Therefore, his book cannot be criticized labelling that he is oppose to Republican Party in his political life.