

## Notes on Steven Pearlstein's Can American Capitalism Survive? *Why Greed Is Not Good, Opportunity Is Not Equal, and Fairness Won't Make Us Poor* (2018)

C. Gary Merritt - UAA DevIssues - 10Apr19

Over the past three decades Steven Pearlstein's incisive reporting and views have appeared in econ and business columns in the Washington Post. A few of these essays in the mid/late-2000s bravely forecasted a Big Bust in the US financial sector and soon led to his Pulitzer Prize in '08. They helped prompt selling the modest equity holdings I managed for my cash-strapped mother, just before that deep dive began in December '07, so I read Pearlstein appreciatively, now all the more so because of this lucid book that merges decades of his thinking.

In common with a broad current of publications lately in bookstores, online and in live public and political fora, the central issue in this treatise is 'how much income and wealth inequality and injustice can capitalism contain in the USA'? 'Are present trends somehow inevitable, inherent in fundamental dynamics of our economic and cultural evolution?' His answers are "Probably not much more inequality will be tolerated;" and "No, the trend was not inevitable and can be reversed."

It's not that US GDP, capital markets and employment rates are tanking. Quite the opposite. Pearlstein is anguished by the speed with which our truly rich few (a.k.a., 'top 1%') have pulled away from the rest of the population, accelerating since the mid-1970s oil embargo pushed the world's capitalist economies into deep recession, ending three decades of shared prosperity after World War II during which 'a rising tide lifted [many] boats.' Not so over the past four decades.

Our rising income disparities, he argues, are driven not so much by the 'hidden hand' of the market but by overt policies that favor the rich, especially top corporate leaders who benefit from a widening variety of engineered policy changes, including tax reforms skewed to government-sanctioned "shareholder capitalism," constraints on union organizing, and frozen minimum wages. In clear, well-cited analyses, Pearlstein links our extreme inequality mainly to the form of capitalism we evolved in which executive compensation is based in good measure on corporate stock performance, a kind of fetishization of shareholder value, rent-seeking, and market concentration.

So, what's wrong with this picture? Or, what's so wrong about this picture? Here, let's adapt part of Isabel Sawhill's review of this book:

1. Markets don't always produce optimal outcomes. In some views, they seldom do. Individualistic self-interest delivers many 'natural selection' benefits but by itself can't deal with larger issues of what kind of society we want to live in; what kind of culture do we want to pass on to our descendants? *Markets are amoral*

(*capitalist advocates say*). They can't determine what support should be provided to the least well-off, what kind of environments and ecologies our children will inherit, nor determine what protections and regulations are necessary to maintain competition and prevent unchecked economic power from governing our (or any) political system.

2. Wages often don't equal or even well reflect productivity. Wage growth lags well behind productivity growth in recent decades; wage levels for workers with comparable education and experience vary sharply across firms—how does that happen in an open competitive economy? Ever higher proportions of US national income go to shareholders; less and less go to the blue and, lately, the white collar labor force that mostly produce it. There are *justice* issues in this.
3. We clearly don't have equal opportunity as promised in our founding charters nor as in our wishful beliefs in meritocracy. We can't pick our parents, genetic endowments, neighborhoods, or our early schooling. Today's high levels of inequality already have increased the 'stickiness' of social *immobility* and widening middle class anxieties. Lower actual and perceived opportunity for social mobility in the future likely will slow economic growth as its incentivizing effects are offset by its *negative effects on social trust, productivity, and political stability*.

How did our particular form of capitalism come to be evolutionarily 'selected' (or, more properly, 're-selected') over the course of the 20<sup>th</sup> century?

He argues that the key villains are *ideas* conceived and propagated by "The Chicago School" of economics in the mid/late 20<sup>th</sup> century, nurtured in schools of business, on Wall Street, and in think tanks across the US. The phalanx of economists (notably, Milton [and Rose] Friedman, G. Stigler, and G. Becker), wealthy funders, and vocal rightist libertarian publicists all cited the seminal work of Adam Smith (and sometimes also Charles Darwin) as *foundational* to their understanding of why capitalism was and must be the most (if not *only*) superior economic system. After all, movements must have heroes and founding fathers.<sup>1</sup>

Thing is, they didn't actually read or perhaps understand nor even care what Smith and Darwin and their contemporaries actually reasoned and wrote. If you generally like the genre of 'history of ideas,' thinking that ideas may be generic to cultural evolution, and if you have time only to read a bit of this book, please read within Chapter 1: **Is Greed Good?** sections: **The Hijacking of Adam Smith; Why Nice Guys finish First;** and **The Curse of "Maximizing Shareholder Value"**.

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<sup>1</sup> Pearlstein didn't note (but should've) Friedman's overt hostility to *democracy*, a stated view that democracy was inimical to the operation of open, 'free markets'.

In our just prior reading, Paul Collier also included a similar ‘take-down’ of right-wing, neo-liberal intellectual foundations but Pearlstein’s narrative is more forceful, more neatly contextualized within recent economic history. Like Collier, he repeatedly stresses that capitalism, *per se*, is altogether *amoral*. Pearlstein examines many examples of studies showing that the most productive economies balance egalitarian and meritocratic reward systems: Everyone shares to some extent, with incentives for those who do more—i.e., a mix of right and left political economics.<sup>2</sup>

The author’s final chapter proposes and elaborates numerous systemic reforms, including profit-sharing, renewed antitrust legislation and enforcement, and limiting special-interest money in politics, with an eye to “fostering wider trust” and “replenishing our stock of social capital.” He urges a guaranteed minimum income paired with universal national service, tax incentives for companies to share profits with workers, ending class segregation in public education, and restoring competition to markets. He suggests these paths forward in order to create a more shared prosperity to sustain capitalism over the long term.

He writes that conservative fears of modest redistribution on grounds that it will undermine economic growth, are misplaced. He freely acknowledges that too much redistribution has adverse effects—that a dominating administrative socialism is not the solution. Moreover, he chides progressive redistribution advocates for never having defined how much redistribution is enough. Pearlstein, much like Paul Collier, is a very stalwart centrist.

I’ve no good idea why he doesn’t deal more with trade, exchange rate, and related macro-economic policy issues. These would seem to have hefty diagnostic and some corrective value and he has touched on these in some past WashPost columns. No doubt, these comparatively arcane issues don’t blend neatly with Pearlstein’s main quest to analyze and foster wider national trust with much more accent on morality in public policy. Migration and immigration dynamics are not mentioned though these clearly are central, perennial political-economic issues, more so in today’s worldwide resurgence of nativism and nationalism. Existential environmental issues are little mentioned. This goes to show: regardless how brilliant, an author can only deal brilliantly well with a limited number of issues in such a short (235p) book.

I much relished this lively read. Its analyses are clear and its inferences plausible. It’s for anyone concerned about, or even just interested in the USA’s political-economic system evolution: what’s gone well; what’s gone wrong; and what reforms are feasible to regain balance for our future. But I’m dubious that Pearlstein’s prognoses are feasible regarding the possibilities for truly effective reform, for saving US capitalism from its most ardent capitalists.

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<sup>2</sup> Collier’s and Pearlstein’s books are part of a swell of publications on the virtues and vices of today’s capitalism(s). An IT person at Barnes&Noble provided us a list of books presently on offer that include the keyword “capitalism”. The printout listed 120 (in English), published since 2000. It would be arduous to estimate how many journal, magazine, academic theses, and think tank papers have been published in recent years, let alone those posted in the online digital jungles. Capitalism’s triumphs and, more so, its woes are subjects of intense ‘market’ interest in recent years.

A big question worth pondering: Can Democracy Survive Global Capitalism? Robert Kuttner in his early 2018 short book with that title, makes a strong case that it's possible, maybe in some smaller, ethnically mostly homogeneous societies but that it's not likely in America, China, UK, and more widely. He argued that the post-Great Depression New Deal and post-WWII expansion of labor, civil, and human rights governance and political economy led to norms that were very different from the usual rules of dog-eat-dog capitalism pervasive in the 19<sup>th</sup> century. He sees an almost inevitable reversion as financial system rules become less regulated and more international, that this process is not really economic but political. He ends his gloomy analysis by enjoining citizens to re-strengthen regulatory boundaries much like those urged by Collier and Pearlstein.

In the words of a brilliant young cultural evolution researcher recently, in answer to my question "*Will American capitalism survive?*" answered swiftly, "*Who knows? But this is clear: we're in the 'End Days' of an evolutionary survival contest!*"

It's hard to decide. Does she or Kuttner have the correct calls or is it always the 'End Days' for whatever global situation we *sapiens* plod into. Must we now go 'all in' for radical reform as she believes or can we just plod along as I'm guessing we will do, devil take the hindmost?

Thanks to the colleagues who read, met, and lively discussed this UAA Development Issues book selection!

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FYI: links to several of Pearlstein's WashPost columns, related to themes in the book posted since his 2018 book was published in Oct '18:

< [www.washingtonpost.com/business/amazons-political-mugging-in-new-york-is-a-warning-for-american-business/2019/02/15/](http://www.washingtonpost.com/business/amazons-political-mugging-in-new-york-is-a-warning-for-american-business/2019/02/15/) >

< [www.washingtonpost.com/business/wealth-tax-70-percent-rates-medicare-for-all-lets-take-a-breath/2019/02/05/](http://www.washingtonpost.com/business/wealth-tax-70-percent-rates-medicare-for-all-lets-take-a-breath/2019/02/05/) >

< [www.washingtonpost.com/business/cvs-bought-your-local-drugstore-mail-order-pharmacy-and-health-insurer-whats-next-your-hospital/2019/01/31/](http://www.washingtonpost.com/business/cvs-bought-your-local-drugstore-mail-order-pharmacy-and-health-insurer-whats-next-your-hospital/2019/01/31/) >

< [www.washingtonpost.com/business/the-786-million-question-does-steve-schwarzman--or-anyone--deserve-to-make-that-much/2019/01/04/](http://www.washingtonpost.com/business/the-786-million-question-does-steve-schwarzman--or-anyone--deserve-to-make-that-much/2019/01/04/) >

< [www.washingtonpost.com/outlook/how-to-bring-ethics-and-morality-to-capitalism/2018/12/20/](http://www.washingtonpost.com/outlook/how-to-bring-ethics-and-morality-to-capitalism/2018/12/20/) > (Pearlstein's review of Paul Collier's Future of Capitalism)

< [www.washingtonpost.com/business/yes-it-could-happen-again-the-flaws-of-american-capitalism-invite-cycles-of-booms-and-busts/2018/09/07/](http://www.washingtonpost.com/business/yes-it-could-happen-again-the-flaws-of-american-capitalism-invite-cycles-of-booms-and-busts/2018/09/07/) >.