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Abstract. The rules of game are fair if they are fair for all the economic agents; but if rules favor certain segment of society more than the others, then not to change rules would be grossly unfair. The rules that exacerbate the gap between the rich and the poor and make equality of opportunities conspicuously absent are not fair at all. These unfair rules give birth to poverty and inequality and the issue of poverty and inequality is of utmost importance. For instance, in April 2013, the Board of Executive Director of the World Bank adopted two goals: end global extreme poverty and promote shared prosperity. The World Bank Group published a comprehensive report titled ‘Talking on Inequality’ in 2016.

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Book review

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The rules of the game definitely play a major role in sharing enhanced resources of the economy. Given the immense influence of these rules, the book ‘Rewriting the Rules of the American economy: An Agenda for Growth and shared prosperity’ authored by Joseph E. Stiglitz is an important step in this direction. The book aptly describes the American economy and its discontent. At the beginning, it seems that trigger of the book comes from 2008 crisis and the deep recession experienced by the Americans which compelled many Americans to lose jobs or enter into fore-closures. Although, the book discusses the crisis of 2008 but the author points out that the nature of problem is much broader than the specific events of that period.

The book comprises of three parts: part I gives the introduction, part II describes the current rules and part III spells-out rewriting the rules. The objective of the book is to have a deep understanding about what is wrong with the economy, and how it can be fixed to achieve shared-prosperity, as well as

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informing the political decision makers with details. The book says that if American economy is no longer working for most of the American, then it is by design. Most economists resort to textbook models and blame the forces like: technological change or globalization, free enterprise system, and the reward for risk takers. But the author is not convinced with such blames and makes the following points: our over-reliance on the perfectly competitive market structure, and go to the extent to say that even if markets are competitive still there can be market failure, and this is verifiable from the number of real life events, for instance, the economic crisis of 2008. The literature about asymmetric information also substantiates this notion of market failure.

Similarly, the Kuznet’s inverse U-shaped curve also does not hold, particularly since 1970. Besides, the Okuns ‘big trade-off between efficiency and equality is also under attack as the author quotes a study which maintains that inequality and economic performance are not at odds with each other. Broadly speaking the supply side economics hinges on deregulation, lower taxes, on top earners and capital gainers which also bring disappointment which the book maintains. In addition, deregulation of financial sector also, did not bring long-term growth and stability to the economy but promoted the short-termism. To harness the benefits of globalization, and technology for the poor segment; appropriate safeguards were essential but they remained missing. To elaborate the deep-rooted problems, the author uses the metaphor of iceberg and maintains that just tinkering with tip of the iceberg will not bring a fundamental change; rather it is the bottom – the rules that are set and the power to set them, demands attention.

In the second part, the book talks about the existing rules and how these rules shape the economy and distribution of income, the way it is today. The rules encompass: market power and competition, financial sector growth, the CEO and workers’ pay gap, tax structure tilted in favor of the wealthy segment. Broadly, the current rules delineate as to how to public policy decisions give birth to inequality. Elaborating the current rules, the book says that inequality has been a choice. The unflinching faith on market forces, lower tax rates on the top bracket income groups and excessive importance ascribed to the lower level of budget deficit and inflation among the key culprits that led to the existing state of affairs – high inequality. Corporate power has increased and the reverse is true for workers’ power. Besides, different types of discrimination also exist. The book, consistently emphasize that all these have been choices, i.e., the option to do the things otherwise were not absent.

The author is of the view that despite anti-trust laws, the Intellectual Property Rights (IPRs) are the government enforced monopolies to profit from an innovation. Furthermore, the book provides the evidence that the text book benefits of IPRs – innovation and productivity – are not there however, monopoly rent are very much conspicuous. In contrast, the IPRs block the spillover effects of knowledge and thus, limit the speed of innovations. Such issues are most prominent in medicine industry. The rules of globalization are also tilted in favor of big corporations instead of workers, the author maintains. Large corporations look for the countries where environmental laws are less stringent, tax advantages exist. Despite the mantra of competitive market, the practice of lobbying by firms and rent seeking behavior of individuals’ economic agents are quite common. Particularly, the finance industry has shifted from its primary function – allocating capital effectively – to the rent seeking behavior. The current rule of deregulation contributed a lot to the state affairs, where we are now. The financial sector wages relative to the non-financial increased rapidly after deregulation period. More interestingly, the deregulation did not bring benefit of lowering average cost, rather the cost of supplying dollar one of financing which was $0.016 in 1945 went up to $0.024 in 2011. Interestingly, ‘shareholders’ revolution’ the rise of CEO pays also benefitted the big wigs at the cost of
The share holders’ revolution led to short-termism. The current rules are of course darling of the CEOs, for instance, in 1965, the ratio of the average annual income of CEOs to workers was 20-to-1 which went up to 295-to-1 in 2013. The even more worrisome part is that neither the shareholders’ revolution benefitted the shareholders, and/or stakeholders nor the CEO compensation has strong correlation with the performance. The irony is that, the text book recipe that lowering the tax rates would kick start economic growth also did not do the way it intends to do. The book cites a Congressional Research Service Report mentioning that there is no conclusive evidence which substantiate that a reduction in tax rate enhances the economic growth; however, it does exacerbate income inequality.

With respect to Fed, the current rule gives a far more importance to low inflation than a high employment which also contribute in shaping its way, the economy is. Furthermore, the Fed’s failure to ensure competition among banks also favored the banks than the borrowers, particularly, the small borrowers. Yes, there are consequences of high inflation but the long-term effects of unemployment are also detrimental for the economy. Besides this, the workers’ voice has been diminished and the disconnect between productivity and wages has gone in favor of the wealthy. For instance, between 1973 and 2013, productivity grew by 161 per cent, whereas compensation rose only by 19 per cent. Workers rights have not been awarded, and if awarded they have not been enforced. Ironically, in the Land of Opportunities, discrimination on the basis of color, race and ethnicity also exists. The book provides evidence with respect to household income and upward mobility of children, where African-American bear the more heat. Gender discrimination in the form of pay gap is also not absent.

The third part of the book deals with Rewriting the Rules. The author is of the view that though politically it is not easy, yet without broad reforms and bold institutional measures the deep entrenched problem of inequality is not going to be settled. Just tinkering here and there with some policies and playing with the tip of iceberg – daily experience of inequality – will not serve the purpose rather rules that structure our economy and large global forces, that is, technology and globalization, need to be harnessed in favor of those who are in lower income quartile.

The first requirement is to limit the rent seeking behavior and the second requirement deals with the rules and institutional set up that retain and expand the middle class. The first requirement, Taming the Top includes: making the markets competitive, fixing the financial sector, incentivizing long-term business growth and rebalancing the tax and transfer system. When talking about competitive markets along with the market power, the political power, (i.e., the ability of corporations to secure legislation and regulation) should also be taken into account. There is a need to restore a balance between the IPRs and innovation. Neither the IPRs should shield the owners from competition nor should they take away the incentive for innovation.

Similarly, there is a need to look into the global trade agreements. The rules must not be against workers. More specifically, business practices must take into account the health issues of the workers, environmental issues and consumer safety. Health related industries have been pampered. Instead, the United States government must bargain with drug companies for bulk purchase.

Financial sector enjoys the rules that are in favor of creditors. Similarly, current bankruptcy laws are not symmetric. Besides, the high pay of high-ups in financial sector also demands considerations. The financial sector needs to allocate judicious resources for small businesses, housing and education. The mantra of too big to fail should come to an end and the bailout guarantee must not let these institutions indulge in moral hazard. Furthermore, the inter-linkages of these institutions must be transparent and regulated. In addition, the author suggests that shadow banking sector must also be regulated and offshore banking
be ended. Along with the commercial banking, the need to reform the Fed is also there. The excessive importance of keeping inflation low and putting the employment goal on backseat demand revisit.

The incentive should be for long term business growth and the rules should put the speculative and rent seeking activities in disadvantage. The book is hard on executives pay and demands disclosure of the ratio of executive pay to the median employee salary. The book also recommends financial transaction tax and increasing marginal tax rate at the top and a dire need to revisit the tax codes that favors the rich. Furthermore, corporations should be taxed on their global income and subsidies must be targeted to poor segment of the society.

The book also recommends that productive investment and work should be rewarded and the rent seeking activities must be discouraged. The growth of middle class is essential as it demands priority at Fed and public investment must not be discounted by over-emphasizing the budgetary deficit. Workers must be empowered by framing laws for their incentives, like decent workplace, reduction in discrimination, raising penalties for violating labor standards and increasing funding for those who observe the labor standards. In addition, the book recommends that reforms in immigration laws, criminal justice system, paid sick leave and paid family leave will also give relief to the worker class. Interestingly, the book focuses on childhood environment and demands level playing field for all. The author looks at long-term equitable growth through the lens of productivity that requires a befitting childhood and good health and access to higher education. In the end, the book highlights the provision of housing and expansion of social security.

By explaining the current rules that rely on orthodox economics, the book has rightly debunked the over reliance on market forces and suggests that there is a dire need to look at the otherwise. Stiglitz has provided a deep understanding of rules and possible solutions which may also be useful for other economies. The applicability of suggestions demands attention of economists, policy makers and the politicians.