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Case for a More Inclusive Social System

By: Arjun Jayadev

In his new book, Joseph Stiglitz argues that neoliberalism has focused too much on limiting government restrictions (negative freedoms) while neglecting government support (positive freedoms). This has led to a concentration of wealth and power, where exploitation is prioritised over social equality

Three-quarters into his new book *The Road to Freedom: Economics and the Good Society*, Joseph Stiglitz provides a pithy summary of its basic premise: “For a long time, the Right has tried to establish a monopoly over the invocation of “freedom”, almost as if they had a trademark on it. It’s time to call out the Right and reclaim the word.”

It is a typically pugnacious statement from Stiglitz, who has for a long time now commanded an unusual position within the discipline. ¹ Perhaps one of the most decorated scholars of his time and a key theorist from the 1970s to the 1990s, he has also had several stints in successful policymaking roles (in the Bill Clinton White House and in the World Bank) before winning the Nobel Prize in 2001. In the late 1990s, however, Stiglitz turned to a different role as a powerful, well regarded and forceful critic of neoliberalism.

Despite current protestations otherwise, neoliberalism was the default political position of the majority of practising economists, especially in the West, at the time. So in his willingness to take on an explicitly political outlook—one that stood directly against the orthodoxy of the time—his position in the discipline became as prominent as earlier public intellectuals such as Milton Friedman or Friedrich Hayek. They too conceived of economics as a terrain of social contestation rather than simply dispassionate analysis. The difference, of course, is that they were politically polar opposites of Stiglitz.

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It is not surprising then, that the intellectual foils for Stiglitz in this latest book are precisely these two—perhaps the patron saints of libertarian/neoliberal orthodoxy, economists who were, as he puts it, “the most notable mid-twentieth century defenders of unfettered capitalism [...] without rules and regulations”. The title of the book clearly echoes the most famous popular works of Hayek – *The Road to Serfdom* (1944) – and Friedman’s with his wife, Rose – *Free to Choose* (1980). For Stiglitz, the economics and economy that grew out of the influence of Friedman and Hayek has generated a very limited and twisted form of freedom – one that concentrates power and works for the few at the expense (and this is key) of the many.

The key idea here is a familiar one and makes its entrance right at the outset – the distinction between positive and negative freedom that Isaiah Berlin made famous in the middle of the last century. Berlin’s contention was that freedom had two facets. It could involve the freedom from want or from coercion (negative freedom) on the one hand and the freedom to live life on one’s terms and potential (positive freedom) on the other. The problem is that these need not coincide, and it is often the case that they conflict. So one person’s freedom (let us say, to not be taxed) becomes another person’s unfreedom (to not benefit from transfers that might allow for an expansion of personal capacities through obtaining an education).

This requires some adjudication around competing freedoms and social and political debate. Politics must decide and deliberate around the correct lines to draw in social policy to create a good society. And this is an ineluctably political process that can, if not taken seriously, lead to socially devastating outcomes. As Berlin put it succinctly and famously, “Freedom for the wolves often means death for the sheep” (the quote makes it into the opening paragraph of Stiglitz’s book). For Stiglitz, the freedom that Friedman and Hayek pushed for is of the lupine variety.

Stiglitz’s thesis is that during the last four decades, the economic direction that the Hayek-Friedman analysis provided has caused society to draw the contours wrongly, focusing too much and pushing too hard on limiting negative freedoms, especially as they come from the actions of government (coercion, regulation, and the like) and ignoring the positive freedoms that government action and intervention could promote. Of even more import, he argues, is that this invocation of freedom has been in service of something much more sinister – a concentration of social and economic power, an unrestrained avaricious economy in which the freedom to exploit supersedes the right to a more egalitarian and just social order.

This book takes aims not only at neoliberalism but also the economics of neoliberalism—the kind of Chicago-style economic imperialism of the 1970s and 1980s.

In many ways, this terrain may feel similar to the many recent popular books that Stiglitz has written—whether *The Euro: How a Common Currency Threatens the Future of Europe* (2016), the ills of runaway inequality – *The Price of Inequality* (2012) – or earlier works that made his reputation as a superstar public intellectual such as *Globalisation and its Discontents* (2002), or *Making Globalisation Work* (2006). Here, as there, readers learn about the depredations of an unregulated and politically connected financial sector, about the ways in which global intellectual property rules militate against basic decency, about the ways in which the US and European governments, while ostensibly sticking to the rules of the game, shift it towards powerful corporate incumbents. More recently, Stiglitz, along with Anya Schiffrin, has written about the dangers of a corporate media that has undermined trust in expertise and even the truth.

Yet, the book takes a slightly different tack from previous ones. Here, Stiglitz links these outcomes with the economics that undergirded such changes. This book takes aims not only at neoliberalism but also the economics of neoliberalism, the kind of Chicago-style economic imperialism of the 1970s and 1980s. Stiglitz’s own theoretical interventions were central to the undermining of the shibboleths of what might be termed “market fundamentalism”. The revolution of information economics that he and others brought into the discipline provides evidence why the happy, socially optimal outcomes arising from “free” markets are unlikely to come about.

For any economist who has gone through a modern economics training, Stiglitz’s all pervading influence is clear. Even very minor deviations from the assumptions that undergird market efficiency lead to the collapse of traditional arguments. And once we are away from the optimal conditions that are required, and economic distortions exist, it is possible that introducing other distortions and regulations may lead to better outcomes.

This kind of reasoning is now a part of the canon in economics, and the extent and types of market failures are well documented. There can be no question that the discipline has moved on from the very ideological positions of Friedman (the relationship with Hayek is still a little more ambiguous). But, to Stiglitz, economic policy and general sense about how to manage society has not advanced adequately. Or perhaps, more disturbingly, has been co-opted to support the powerful, even in the face of overwhelming evidence that it is destructive and has not benefited the many.

Across the world, following years of crises, austerity, the rise of alternative poles of power, societies seem much less pliable and accepting of the promises of liberalism.

Twenty-five years ago, when Stiglitz was the first and most prominent critic of the existing economic order, it was difficult to imagine a shaking of that consensus. Older readers will remember the triumphalism of the US economic system in the late 1990s, victorious over the Soviet Union, but also over the alternative “East Asian model” with the onset of the Asian financial crisis. So, too, the hagiography surrounding actors in the Clinton economy: Alan Greenspan, Larry Summers, Robert Rubin, and others.

A quarter century later, it is hard to recall how firm this seemed. The political and economic consensus that seemed permanent lies perhaps fatally shattered. Across the world, following years of crises, austerity, the rise of alternative poles of power, societies seem much less pliable and accepting of the promises of liberalism. In country after country, especially in the West, voters have seemed to prefer strongmen, or positions that challenge the liberal centre. Whatever the public has been subject to has palpably not been working—and neoliberalism seems to have exhausted itself. Interestingly, it is clear that economists do not have a ready answer to this situation either.

Stiglitz’s efforts here should be seen as an attempt to rise to this challenge. To him, the freedoms that were promised by neoliberals such as Hayek and Friedman were at best a naive hope, not grounded in science but in ideology, and at worst an active undermining of useful and progressive politics to favour an unfair and inefficient plutocracy. As he puts it, their ideas were “antithetical to a sustainable democracy.” What we ought to be aiming for is a real enhancement of people’s positive freedoms, and Stiglitz contends that we do have the knowledge and capacities to develop such an alternative.

“Progressive capitalism” is the term Stiglitz uses for his positive agenda. The aim here is to expand the range of government (a direct reversal of years of movement the other way), in such a way as to constrain the depredations of amoral private capital. This would include redistribution, anti-trust, regulation, and more. A series of tables give a sense of the kinds of policies that might be adopted (for

example, the development of green banks for credit provisioning, the provision of public options and disclosure requirements to combat platform monopolies, and the like). Just as much, it is not simply about regulation but also addressing the fact that in an interdependent world, the degree of cooperation needed is at a much larger scale than currently provided.

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Thus, for example, the provisioning of global public goods such as health and a clean environment require a degree of international agreement that is as or more extensive than that of neoliberalism—but with a much larger role for the public. While the vision is necessarily more radical (and Stiglitz is sure to include mention of non-capitalist institutions such as worker cooperatives or care work), most of the time, the proposals seem very much within the centre or centre-left spectrum of policies. Very few economists, for example, would argue against the need for unemployment insurance or other proposals such as expanding the quality and extent of public schooling (even if there is active political opposition to the extent and degree).

Stiglitz’s overall diagnosis of the situation is compelling. Whatever the successes of the more market-oriented policies that the world undertook since the 1990s (and there have been such successes too), the current political moment suggests deep dissatisfaction in a great deal of countries with the systems in place, with incumbents losing badly. And at least one explanation is that whatever growth has happened has also occurred with an atrophy of positive freedoms for an unacceptably large number of people.

The promises of liberal capitalism that were pervasive even 10 years ago seem a mirage. (It is striking to me how the “enlightened entrepreneurs” of the new economy – the Googles, the Facebooks, Microsofts and the like – are now widely seen as overly large and extractive monopolists.) People feel powerless, less in control of life and more subject to vulnerability outside their making. Something new is needed and politics is much more widely opened to possibilities. The problem is that this space can easily be occupied by nationalist strongmen whose policies are not progressive (and indeed these are the kinds of politicians who seem ascendant worldwide).

Any combative book will draw criticism, and this one will be no different. For example, liberals and libertarians will no doubt take umbrage at the treatment of Hayek in particular, who was certainly a sophisticated and deep scholar of constitutional order. And Stiglitz’s engagement with Rawls, who is the liberal philosopher whose ideas animate the book, is likewise quite light.

Most of the policy proposals are not particularly radical – rather they are a careful, even technocratic, push for greater government intervention within a capitalist order.

Unlike, say, Amartya Sen, Stiglitz is not concerned here with more extensively defining and deliberating on positive freedom. His is not a book that is seeking to be a work of political theory, and he is less interested in political nuance than creating a broad brush foil to make a case for a more inclusive social system. (Stiglitz’s own masterful “Whither Socialism” [1993] is a much more careful assessment of political and constitutional settlements.) Just so, from the world of practical economics, a market liberal may argue (perhaps with reason) that while market failures are pervasive, there is reason to be suspicious of wide and expansive government intervention and the dangers of government failure.

On the other hand, leftists may be disappointed in another way. Most of the policy proposals are not particularly radical. Rather they are a careful, even technocratic, push for greater government intervention within a capitalist order. And in this it is unlike the work of Friedman and Hayek in their times, which sought to ambitiously and radically rework the system they saw right from its roots.

And while these criticisms may be fair, they would be, in Stiglitz’s terms, “missing the forest for the trees.” He is admirably forthright and states that this is not quite an academic book, full of qualifiers and follow-up arguments. Rather it is a full-throated attempt to shake free of an orthodoxy that, while exhausted, remains like a dead weight on the current moment, preventing change and prolonging the kinds of excesses that have characterised the era.

In many ways, the world is moving ahead from the previous interregnum in a haphazard way, with the vectors of political traction and economic policy being worked out on the go. Stiglitz hopes to provide a more considered, socially inclusive, and salutary path to a destination with greater genuine freedom and welfare for all.

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Footnotes:

1 A disclaimer at the outset. Stiglitz is both my post-doctoral advisor and a co-author. We have worked extensively on issues of intellectual property, especially as it pertains to access to medicines and macroeconomics.