

Book review

Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity by Joseph E. Stiglitz. W.W. Norton, New York, pp. 256

Reviewed by Artur F. Tomeczek

Inequality in the United States has become the subject of many economic publications and discussions in the recent years. The current policies of the United States have been under heavy scrutiny, especially in light of one of the most polarizing presidential races in its history. In his 2015 book *Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity*, Joseph E. Stiglitz describes the degree of inequality in the United States, and provides the solutions that aim to improve the quality of life and foster sustainable economic growth.

Joseph E. Stiglitz is among the most influential economists of our time. One of the foremost authorities on inequality, economic sustainability, and globalization. He is the recipient of the 2001 Nobel Prize in economics, the 1979 John Bates Clark Medal, and the 2013 Robert F. Kennedy Book Award. During his long and fruitful academic and political career he amassed a wealth of experience. Currently Stiglitz is a professor of economics at Columbia University, the Co-President at the Initiative for Policy Dialogue, and the Chief Economist at the Roosevelt Institute.

Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity is based on the 2015 report by Joseph E. Stiglitz, published by the Roosevelt Institute. The report was co-authored by Nell Abernathy, Adam Hersh, Susan Holmberg, and Mike Konczal, all affiliated with the Roosevelt Institute.

The book consists of a preface by Joseph E. Stiglitz and Felicia Wong, an introduction, the main body, and an appendix. The main body of the book is divided into two parts. The first part, in which Stiglitz presents a broad overview of symptoms and causes of inequality in the American economy, is entitled *The Current Rules*. It consists of 9 chapters¹ (pp. 26-96). The second part, in which Stiglitz offers a comprehensive set of policy reforms, is entitled *Rewriting the Rules*. It consists of 8 chapters (pp. 97-168), which are grouped by Stiglitz according to two overarching themes in his proposed reforms: *Taming the Top* and *Growing the Middle*.

¹ Chapter *Gender Discrimination* (pp. 91-96) is not listed in the book's table of contents.

Stiglitz believes that economic and social inequality is killing the American Dream. The middle class in the United States is struggling, social mobility and economic growth are becoming increasingly lackluster. While Stiglitz focuses on the situation in the United States, he is well aware that issues he tackles have global consequences. According to him, deregulatory policies gaining prominence in the 1970s and the 1980s have greatly contributed to the increase in inequality in the United States.

In chapter *More Market Power, Less Competition* Stiglitz argues how biased intellectual property rights can distort the economy. According to him, because of their unchecked market power gained in part from monopolized innovations, companies can entrench themselves in the market creating barriers of entry and commit their valuable resources to ‘unproductive rent-seeking activities’. In chapter *The Growth of the Financial Sector* Stiglitz blasts the financial sector for its inability to self-regulate. He believes that the financial sector has had disproportionate increase in wages compared to the rest of the labor market.

In chapter *The ‘Shareholder Revolution’, the Rise of CEO Pay, and the Squeezing of Workers* Stiglitz points out that Wall Street and American corporations are focusing on short term profits, which generate dividends and increased executive pay, at the expense of long term goals, which generate wealth for the company (the so called ‘short-termism’). According to Stiglitz, tying CEO pay to company’s performance in the short run has created incentives for risky investments and was one of the primary reasons for drastic increase in the CEO to worker wage gap.

In chapter *Racial Discrimination* Stiglitz lists the obstacles that people of color are being subjected to in the United States, which include hindered vertical mobility, lower median household income, and less job opportunities. He believes that American society will become ‘majority-minority’ by the year 2050, and because of that it is imperative to reduce poverty among those social groups. In chapter *The End of Full-Employment Monetary Policy* Stiglitz argues that the Federal Reserve should prioritize full employment even at the cost of an increased inflation rate.

Policy reforms proposed by Stiglitz aim to drastically reduce inequality, and to promote equality of opportunity and sustainable economic growth. Many of them are very long term endeavors, bearing fruit for future generation. But for them to succeed he urges for immediate systemic change. His proposals have two primary steps. “The first move is to tame rent-seeking behaviors that unduly reward those at the top while raising costs for the rest and reducing the efficiency and stability of the U.S. economy. [...] The second part of our agenda seeks to restore the rules and institutions that ensure security and opportunity for the middle class”.

In the United States Stiglitz proposes law reforms which would reduce market distortions and increase their competitiveness. He believes that Americans “need a 21st century competition law that recognizes that we have moved from a manufacturing to a service and knowledge economy, where different principles of competition are relevant”. An important part of his proposed law changes would be an overhaul of the strict intellectual property rights regime. On the global scale Stiglitz argues that international institutions should aim to promote sustainability and fairness in international trade. He criticizes current free trade agreements, describing them as ‘managed trade agreements’. Which in his opinion are becoming more focused on defending corporate interests instead of promoting equitable economic growth.

Stiglitz wants to promote equality of opportunity by providing equal access to health care and education, an immigration and citizenship law reform, enforcement of the worker protection and anti-discrimination laws, and generous government funded education programs for the pre-kindergarten children. His labor related reforms include expanding the antiquated worker protection laws and an increased minimum wage. Another crucial proposition is the modernization of the public infrastructure. Stiglitz considers the current tax system in the United States to be ‘regressive’, with the wealthiest paradoxically paying lower taxes proportionate to their incomes. He calls for a tax increase for the top income earners and a significant capital gains tax reform.

Stiglitz argues for laws that prevent the financial sector from destabilizing the economy and increase its contribution to real economic growth. For that to happen, he calls for increased transparency, especially in the shadow banking sector. Stiglitz also believes that the United States Securities and Exchange Commission (SEC) is too lenient in enforcement of its own rules. In order to curtail short-termism and financial speculation he proposes a low rate financial transaction tax. His solution to increasingly high credit card fees is to create an accessible and cheap ‘post card debit card’ provided by the United States Postal Service. Additionally, he wants to change the current bankruptcy law to be more in favor of regular citizens.

The book is very informative and concise. All arguments are presented in a clear and organized manner with little room for interpretation. Part one (*The Current Rules*) lists the problems, while part two (*Rewriting the Rules*) features Stiglitz’s proposed solutions. The scope of policy changes proposed by Stiglitz is certainly very broad. He wants to change the rules governing the economy and politics in a way that has never before been attempted in the modern times.

The aim of Stiglitz’s reforms should meet with universal agreement. Economic and social inequalities are harmful to the economy and we should take immediate steps in order to minimize their effects. There can be no doubt about

the severity of the issues he presents. However, many of the propositions presented by Stiglitz are certain to spark vivid economic discussions. Most of his policies are contrarian to the mainstream supply-side economics.

As the global economy began to recover from the biggest economic downturn in decades, economic inequality has become one of the most important topics of contemporary economics. Book's message is very reminiscent of Stiglitz' recent works, most notably *The Price of Inequality*. His dismissal of the macroeconomic benefits of the trickle-down effect and restrictive intellectual property rights regime echoes his and Bruce Greenwald's book *Creating a Learning Society*. Stiglitz and Greenwald argued that the role of the state should be to foster the environment of accessible innovation and learning spillovers.

I found *Rewriting the Rules of the American Economy* to be very compelling and a wonderful read. Stiglitz employs his socially conscious and honest writing style to present a clear picture of the contemporary socio-economic landscape. Having said that, I disagree with his harsh assessment of free trade agreements. Another point that would require a great deal of consideration is the increase in corporate tax and his proposed global income corporate tax. Surely any such increase in levies could give rise to new incentives to regulatory arbitrage. Stiglitz's apparent solution to problems created by these incentives would be a tax law reform and its diligent enforcement by government agencies. Which is a perfectly valid one under the assumption that the corporations need the United States' economy more than the United States' economy needs the corporations. Yet the big question remains – what if they don't?

The role that the reforms presented in this book will play in reshaping the economic policy of the United States will be determined in part by the 2016 presidential election in the United States. With the struggle of the 99% and the decline of the middle class becoming focal points of the campaign, it is easy to understand why this book is so important and current. Even though Stiglitz does not advise any candidate in an official capacity, his policies are much more likely to become implemented with a Democrat in the White House. It is important to remember that Stiglitz was in fact the chair of the Council of Economic Advisors for two years during the Clinton administration.

Rewriting the Rules of the American Economy serves as a stark reminder to pundits and a shocking revelation to the general public about the degree of inequality in the United States. It is without a doubt a very important book that everyone should read. Stiglitz, as usual, masterfully presents complex policymaking and economic theories in a way that is easy to understand. If reforms presented in this book will become a reality, and they are successful, Stiglitz might just become to future generations what John Maynard Keynes had become to the 20th century American economy.