FROM THE

FOUNDER

Can Capitalism Be Saved?

It's time to take on the "ruthless corporate elites."

I grew up a public school kid in a blue-collar neighborhood in Baltimore. My next-door neighbor drove a cement truck. A close friend's father was a plumber. When I graduated from high school in 1971, my father was earning $6,800 a year.

After college, I found myself writing economic speeches as a staffer in the U.S. Senate. After about eighteen months, my boss took a job as chief speechwriter at the Chrysler Corporation. Lee Iacocca had just arrived. Chrysler also offered me a job as a junior executive mostly to write congressional testimony. What did I know about catalytic converters? Nothing. I took the job anyway, and it had a profound effect on my opinion about too-large corporations.

My parents were proud to say their son worked for a major U.S. corporation. They shouldn't have been. Something seemed wrong about America's third-largest car company from the start. One day, I accompanied our vice president of engineering to Chrysler's famous Hamtramck Plant. We were met by armed guards. I immediately thought, "We have a serious labor relations problem."

I was given an office with a door and floor-to-ceiling windows with a fake silver water pitcher with glasses. But at age twenty-four, with no seniority, that office was deemed inappropriate by the personnel folks. The dispute, unbeknownst to me, reached the level of the executive suite before being resolved. (I kept the office.)

One day, I was having lunch in Chrysler's executive dining room which consisted of seven or eight large round tables, each with a bowl of bread sticks in the middle accompanied by a small bowl of soft butter. Chrysler had an arrangement to sell Mitsubishi automobiles in its showrooms. That day, the Japanese executives were at the other end of the dining room. The Chrysler executives, loaded breadsticks in hand, kept jabbing in the direction of the Japanese executives, mocking their "itsy-bitsy cars made for itsy-bitsy people that would never sell."

I was shocked. After the 1973 oil embargo, a tidal wave was about to hit from Germany and Japan. Japan's cars in particular were smaller, better-made, and less gas-guzzling.

Of course, this was the 1970s, which one historian described as "America's suicide attempt." American corporations were becoming international laughingstocks. German and Japanese corporations were the new models of global excellence. The Ford Pinto, the small, quality-challenged car that was the subject of a massive lawsuit over safety issues, became the poster child for America's hapless corporate economic performance.

The 1980s and 1990s saw a dramatic economic turnaround. Despite America's lumbering corporate dinosaurs, America achieved much higher levels of economic performance. The robust economy benefited from an explosion in innovative startups.

When pared down to its essence, successful economies all are a reflection of the dynamic mixture of the hopes, dreams, and fears of *people*—by their level of confidence. People are not only consumers. They are also savers, investors, and, in some cases, dreamers of breathtaking innovation that improves the lives of average working families. As the saying goes, "A strong, vibrant middle class is not the consequence of economic growth. A strong, vibrant middle class is the cause of economic growth."

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During this period, the economy developed a powerful ability to produce social mobility. People like me born into the bottom 25 percent of the income redistribution ladder suddenly had a 25 chance of climbing to the top 25 percent. Sadly, kids born today at the bottom have a 5 percent chance. Goodbye, American Dream. It's not surprising that polls show only four out of ten Americans have a positive view of capitalism.

That's in large part because that traditional American can-do optimism toward the future has been compromised by what former U.S. Treasury Secretary Larry Summers calls a "ruthless elite" bent on corporate control.

Starting after the 2008 financial crisis, traditional Main Street Capitalism has increasingly been swept aside by a State-Run Corporate Capitalism where the use of government (and central banks) to reduce business risk for the large and established firms has been growing exponentially. Seth Levine and Elizabeth MacBride in their new book *Capital Evolution: The New American Economy* describe today's new "Frankenstein economy" as less a system of opportunity and more a "hierarchy of access." They continue: "The free market of access to this new capitalist system of corporate lobbying, dark money, and algorithmic misinformation reinforces the s*tatus quo.*"

The arrival of artificial intelligence has turbo-charged this new state-run capitalism phenomenon. The new strategy has the federal government investing in large tech, energy, and other corporations to stay ahead of our foreign adversities. Nothing wrong with beefing up national security, and there are certain fields such as energy where scale is essential. But these corporations, because they are a potential source of investment revenue for a debt-ridden government, are setting a dangerous precedent. Soon, this cozy big corporation-big government relationship will spread. Indeed, BlackRock is already being labeled "the *de facto* central bank of global capitalism."

Could corporations over time become more powerful than nations? Probably not, but the danger of this growth in state-run capitalism is that it could dramatically expand the division in America between rich and poor. Remember, state-run corporate-centered economies lack a great track record in producing high growth rates. Consider France, the star of the state-run capitalist world. Since 1990, the U.S. economy grew by 368 percent, according to IMF data. For the same period, France grew by only 150 percent. Twenty-five years ago, Europe and the United States had economies roughly equal in size. Then Europe adopted a heavily state-run economic agenda. Today, the U.S. economy is 40 percent larger.

This new love affair with state-run capitalism is likely to further widen America's great divide. If artificial intelligence achieves the extraordinarily high productivity growth gains its promoters are promising, buckle up. The U.S. stock market will rocket to unheard-of levels. The rich will get richer.

Not convinced? Since 1980, the Dow Jones Industrial Average has increased by more than 5,500 percent. What was real wage growth (after inflation) for the same period? A paltry 16 percent. Meanwhile, the middle class took on nearly all the growth in household debt. And between 1978 and 2018, CEO compensation jumped an amazing 900-plus percent. This situation is not politically sustainable, particularly given that under AI, half of America's entry-level jobs could vanish. Isn't it about time Washington launched a Manhattan Project to introduce average working families to financial markets, to give them the tools and the means for thriving in a capitalist world?

Only four out of ten Americans have a positive view of capitalism.

American policymakers have a choice. Philanthropist and Home Depot co-founder Ken Langone argues that when all is said and done, "The world belongs to risktakers." Is he correct? Or does the world belong to a collection of all-powerful oligopolies that can provide corporate control and stability? Should the goal be an economy driven by entrepreneurial dreamers? Or by corporate stabilizers?

American is at a crucial inflection point. Democracies with economies that have governments determined to eliminate economic risk face the possibility of subpar economic growth. In the end, growth is everything. Since its founding in 1789, the U.S. economy has grown at an impressive average annual rate of 3.7 percent. The Congressional Budget Office estimates the U.S. economy will grow over the next decade by only 1.8 percent annually. What if America since its founding had had an annual growth rate of only 1.8 percent? The U.S. economy today would not be the most potent in the world. America's GDP per capita would be lower than that of Papua New Guinea. The way to save capitalism is not through fiscal tricks including free stuff (shiny objects) for working people. It is through a reexamination of capitalism itself, keeping the "ruthless corporate elites" from completely taking over to achieve more robust growth.

—DAVID M. SMICK
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