

Does American Capitalism Need to Be Reimagined?

As *TIE* has noted, the Dow Jones Industrial Average stock index since 1980 has jumped an amazing 5,700 percent as the Berlin Wall collapsed, the world economic and financial systems globalized, and the digital revolution arrived. Yet for the same period, median real wages rose by a meager 31 percent. (True, wealth concentration measured across all households regardless of age can magnify the perception of inequality. But the fact remains that during this period, CEO compensation jumped 900 percent. Worker pay didn't.)

It would be simple to conclude that capitalism needs to be replaced. The question is, with what? Since 1995, the American economy's real GDP has grown by an impressive 113 percent, according to the U.S. Bureau of Economic Analysis. For the same period, the European Union's social market economy expanded by only 64 percent. Frustrated European policymakers in private say they would love to exchange economies with the United States, if simply because of Silicon Valley's extraordinary ability to produce and finance technological innovation without the kind of regulatory restraints the European Commission places on Europe's tech sector.

For U.S. policymakers, is maintaining the status quo a realistic option? If the artificial intelligence hype brigade is only half correct in their forecast of coming U.S. productivity growth, the U.S. stock market is likely to soar to unheard-of levels of prosperity in coming decades. The rich—the wealthiest

10 percent of Americans own 87 percent of corporate equities and mutual fund shares—will get absurdly richer. U.S. wealth inequality will increase, as well as voter discontent.

Predictably the Bernie Sanders brigade will foresee the coming of an angry blood-in-the-streets economic revolution, with perhaps even the always-promised “collapse in democracy” that somehow never comes, with the U.S. economy continually able to expand. Political efforts to bring about “tax the rich” policies never seem to go anywhere given the heavy influence of campaign finance over congressional policymaking.

So here's the question: Is there an alternative approach—a third way—that would reimagine or reengineer American capitalism, reduce extreme wealth inequality, and make the future better for working families? Is there a role for government to produce incentives that lead to working folks becoming a part of the investor class—or is that too unrealistic a goal? After the 2008 financial crisis, Washington spent trillions to stabilize the banking system. Why can't the government's tools be

used to expand the number of Americans who benefit from powerful forces like financial compounding? It would be unrealistic, of course, in a symposium to expect the specific details of a reengineering reform plan. But is there a broad direction that you would suggest for reforms? Or is the status quo the only realistic option?

—David M. Smick

**Is there an alternative approach that would reimagine or reengineer American capitalism, reduce extreme wealth inequality, and make the future better for working families?
Are there incentives that could lead to working folks becoming a part of the investor class?**

Seventeen noted thinkers offer their views.



We need to start reimagining how our society can work, live, and stay together.

HAROLD JAMES

Professor of History and International Affairs, Princeton University, and author, Seven Crashes: The Economic Crises That Shaped Globalization (Yale University Press, 2023)

It's right to think that the AI revolution is bringing in the biggest-ever change in human society—indeed even greater and more transformative than the nineteenth-century Industrial Revolution. And just in the way that business and corporate law, but also the whole process of government, were reconfigured at that time, we need to start on a similar exercise in reimagining how our society can work, live, and stay together. AI connects people in new ways, and unless they feel included and valued in the process, there will be resentment, anger, violence, civic disruption, and generalized social breakdown. The solution is not to pay people for doing nothing, for that is only a way of increasing the sense of alienation. In my view, fashionable ideas of Universal Basic Income are quite dangerous, and should be distinguished from a clearly important and necessary social safety net mechanism.

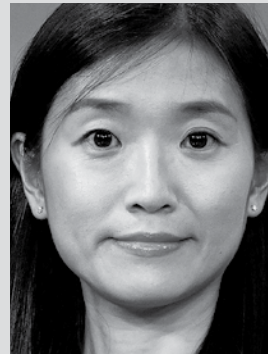
Instead, we might imagine building monetary rewards for participating, engaging, and building new connections. The new economy will be shaped first of all in a conventional way: by working, as there will be many jobs created in using AI applications. Imagine the need in medical services for people who can explain and help with AI diagnoses; or in education for new types of teachers who will give a human face to AI instruction, and so forth. People need to be paid and rewarded properly for their engagement.

The possible changes go much deeper though, and it is helpful to think of the era of the Industrial Revolution as a template, when companies, monetary relations, and government were all utterly transformed, by the extension of the limited liability corporation, and by the widening of the franchise. In our new age, that program requires updating. Ownership may be redefined as the product of people's interaction with AI, establishing in consequence some property and with it responsibility,

some control and some voice in the AI engines that they are using. They will have as a result a new kind of equity that rewards and incentivizes participation in the interconnected space created by AI. Money in this new world is still important for obtaining scarce goods, scarce energy resources, scarce services, but would also be derived as a payment for providing goods and services—including digitized interactions.

And in the political domain, it is possible also to imagine a new kind of voting, with people selecting ways of designing the algorithms that determine how they are taxed, how the AI is regulated, and how to curtail endemic political corruption and widespread insider trading. Such governance algorithms would also be useful in guiding how particular societies interact with other societies, including the management not just of flows of goods or capital, but also how the vast information flows generated by the multiplicity of interactions are handled.

The guiding mantra of the new era of reforms should be more engagement and more empowerment—in short, a dramatically more dynamic version of the demands of those grand old nineteenth-century reformers.



What makes reimagining American capitalism urgent is China.

ZONGYUAN ZOE LIU

Maurice R. Greenberg Senior Fellow for China Studies, Council on Foreign Relations

Yes, American capitalism needs to be reimagined—not because it has failed to generate wealth, but because the institutional architecture governing who owns that wealth, who bears its risks, and who pays the costs when crises arrive is both obsolete and captured: obsolete in its failure to reckon with a world reshaped by China's rise, and captured by the interests of those best positioned to exploit its asymmetries at the expense of everyone else.

That architecture was assembled in two distinct bursts, each rational for its moment. The New Deal institutionalized the principle that catastrophic market failures require government intervention to prevent systemic collapse. The

Reagan restructuring deregulated financial markets, weakened labor bargaining power, and embedded shareholder primacy as the governing ethos of the corporation.

Together, these two moments produced the architecture we have today: one that kept the New Deal's habit of making middle-class and working families absorb the costs of economic crises they did not create, while stripping away labor protections that were supposed to be their share of the bargain. The 2007–2008 global financial crisis and the 2020 Covid-19 shock further entrenched it. Each time, Washington mobilized trillions in public resources to underwrite the losses of the asset-owning class. Meanwhile, the wealthiest 10 percent of Americans, who held roughly 84 percent of corporate equities before the 2008 crisis, held nearly 89 percent by the time the Covid-19 emergency had passed. The 5,700-versus-31-percent divergence between equity returns and wage growth since 1980 is the predictable output of that asymmetry. Addressing it requires not dismantling the innovation engine but redesigning the rules that determine who benefits from its gains and who bears its failures.

What makes reimagining American capitalism urgent is China. The challenge is not merely that China is becoming a peer competitor, but that it has restructured the internal components of American capitalism in ways the existing architecture was never designed to manage. The Reagan-era architecture was designed to outcompete Soviet-style central planning, a rival whose economy the United States was largely independent of. It was not designed to manage a form of state-directed market capitalism so deeply integrated into American supply chains and financial markets that containment itself carries direct domestic costs. The “China shock” destroyed an estimated 2–2.4 million American manufacturing jobs after 2001, with no adequate institutional mechanism to manage the displacement, feeding directly into the political alienation that now defines American politics. America's existing institutional architecture has no coherent framework for managing a competitor that deploys state capital, subsidized research, and strategic patience as primary instruments of national power.

American capitalism's greatest vulnerability is not its innovation deficit; it remains the world's most dynamic innovation engine. It is a resilience deficit. The same institutional choices that maximized short-term returns and shareholder values systematically eroded buffers and broad-based participation that make an economy capable of absorbing shocks without catastrophic social and political consequences.

The institutional capacity to act already exists—it simply needs to be redirected. In the near term, the most actionable initiatives extend the existing savings infrastructure to those currently excluded from it: mandatory

automatic enrollment in retirement accounts for gig, contract, and part-time workers; reformed capital gains treatment that incentivizes long-term investment; and expanded use of the Thrift Savings Plan model as a template for broader public participation in capital markets. The longer-term horizon is a universal Citizens' Investment Account: opened at birth for every American, seeded by a modest public contribution, and invested in diversified index funds under an independently governed, fully transparent mandate, a model Alaska has run since 1982. The obstacles are political and fiscal, not administrative or conceptual. Governance is the load-bearing structure, not capital.

The political coalition for this direction is unusually convergent: the left wants it for equity reasons, the national security community for competitiveness reasons, and industrial policy advocates for supply chain resilience reasons. Different arguments, same destination: an American capitalism that is not less innovative but more resilient, and not less prosperous but more broadly so.

The status quo is not a stable option. The question is whether the intellectual groundwork for reform can be laid before the next crisis makes it feel urgent rather than merely necessary.



What's needed is an evolution, not a revolution.

SETH LEVINE

Venture capitalist and co-author of Capital Evolution: The New American Economy (2025).

The status quo is not an option. But neither is replacing capitalism. What's needed is an evolution, not a revolution.

In 2019, Jamie Dimon led the Business Roundtable in rewriting its fifty-year-old Statement on the Purpose of a Corporation, replacing shareholder primacy with a commitment to all stakeholders. Over 180 CEOs signed it. The left dismissed it as performative. The right called it woke. What it actually signaled was the end of the neo-liberal consensus that had governed American capitalism for half a century.

That consensus delivered extraordinary aggregate wealth. But it stopped distributing it through the mechanisms that built the middle class. Between 1978 and 2018, CEO compensation rose more than 900 percent while worker pay barely moved. In 1940, 90 percent of children would outearn their parents; today, only 50 percent of millennials are expected to do the same. It is now easier to climb the economic ladder in Sweden, Germany, France, and Japan than in the United States.

If the biggest economic question of the last fifty years was about the role of government, the biggest question of the next fifty will be about the role of business. Businesses have become the most powerful actors in our economy, in many cases more powerful than governments. The next evolution of capitalism—what we call Dynamic Capitalism—rebalances profit with purpose and innovation with inclusion. It is neither revolutionary nor socialist. It recognizes what made American capitalism great: that it gave people freedom, opportunity, and mobility.

The core challenge is straightforward: we need more capitalists. When the wealthiest 10 percent own 87 percent of corporate equities, we shouldn't be surprised that large swaths of the population have lost faith in the system. The more members of the capital class our economy creates, the more broadly its benefits will be felt.

Broadening ownership is the most direct path. Nearly seventy million Americans are paid hourly with no equity participation. Yet the evidence for shared ownership is compelling. When KKR sold C.H.I. Overhead Doors in 2022, the average worker received \$175,000—because shared ownership improved retention, engagement, and returns. In Rochester, two former Kodak line workers who founded Optimax chose to transfer ownership to their four hundred employees rather than sell. Publix, one of the largest employee-owned companies, ranks number one in customer trust among grocery brands. The ownership economy works across industries and company sizes.

The government's role should be to provide incentives, not mandates: an Employee Ownership Office within the Small Business Administration, universal baby bonds so every American enters adulthood as a member of the capital class, and expanded access to retirement plans for the fifty-six million Americans who lack them are just a few ideas to consider.

The AI productivity surge will make this more urgent. The last wave of automation devastated families without college degrees. AI threatens an even broader set of workers. We should learn from our past. If productivity gains flow exclusively to the shareholders of a handful of technology companies, the political consequences will be severe. But if we broaden who participates—through ownership, not redistribution—we can build an economy that shares more of its rewards.

American capitalism doesn't need to be replaced. It needs to remember what made it work so effectively in the first place.



The problem today lies in our impoverished political imagination.

JENNIFER BURNS

Edgar E. Robinson Professor in U.S. History, Stanford University, and author, Milton Friedman: The Last Conservative (2023)

American capitalism does not need to be reimagined—but our politics does.

Growing inequality. Simmering social strife. Yawning gaps between rich and poor. We haven't quite reached 1930s breadlines and apple sellers on the street, but the sense is pervasive that American capitalism has profoundly failed to deliver upon its promises. Yet this is nothing more than the relentless churn and upheaval of capitalist markets. As nearly every serious thinker on capitalism has noticed, there is a perpetual tension between the riches capitalism showers upon us and the social costs it exacts. The task of governance is to manage this tension, to find the balance point between change and stasis, prosperity and stagnation. The problem today lies not in the relentless flux unleashed by a free society, but in our impoverished political imagination.

We are nearly a century away from the last great crisis of capitalism—the Great Depression, which in turn sparked the New Deal and the emergence of the modern welfare state. Not surprisingly, the institutions created in this moment—from modern political parties to the administrative state to centralized, bureaucratic educational structures—have proved ill-adapted to our own age. Once upon a time, leaders could hide behind title and position. Deference to experts came naturally. The public was for the most part passive and uninformed. This has all changed with new technologies. First the internet put information at our fingertips, and then social media made it easy to organize, comment, and react. And now with artificial intelligence capable of parsing insights, identifying patterns, and plucking details from previously inaccessible mountains of data, there truly is no longer any place to hide.

Yet amid this full-fledged revolt of the public, American institutions have not responded.

The good news is that our current political dysfunction has also created space for new ideas. Some are simply matters of focus. For example, on both the right and left there is growing interest in “pre-distribution” as opposed to redistribution, that basic building block of the twentieth-century welfare state. Instead of taxes and transfers, pre-distribution seeks to shape markets from the outset with the aim of decreasing inequality. What exactly this means is unclear, especially on the right. Government-funded savings accounts, mortgage support, or incentives for industrial onshoring might join the more traditional leftist portfolio of labor market interventions. But what matters is the shift in emphasis, which marks the first step forward into a new policy environment. Likewise, when it comes to education, changes in our thinking are paramount. One promising idea, advocated by former U.S. Commerce Secretary Gina Raimondo, is to conceive of “modular” higher education, with shorter, intense blocks of focused education replacing the traditional two- or four-year model, boosted by greater private sector collaboration. And still other conceptual shifts may be fostered by AI, which has shown promise in making legible the existing set of constraints previous generations placed upon market capitalism, many of which are not serving their intended purpose.

The Trump era will be remembered as the forest fire that cleared the land. The green shoots come after. And some are already sprouting.



Incentive-based government policies can help address inequality.

BEN HARRIS

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Alternatives to capitalism have failed spectacularly at every turn, as the suffering of generations under communist rule has thoroughly discredited any Marxist vision of an economic system. Even then, the

fruits of capitalism are far too often dismissed: median household wealth has grown more than two-fold since the early 1960s, and economic mobility remains a key feature of the U.S. economy despite the rhetoric claiming otherwise.

The most valid critique of capitalism is not that it fails to raise living standards or stunts economic growth—that debate has largely been settled—but that it fosters persistent income and wealth inequality, even accounting for varying levels of effort or differing preferences over choices like occupation or saving. Here, critics fairly point to the soaring concentration of wealth or persistent racial wealth gaps.

Policymakers periodically try to dictate outcomes by controlling markets. But heavy-handed regulation won’t fix inequality and often worsens challenges with rising prices. New York City’s rent stabilization program has long constrained housing growth and discouraged renovations. Historical experimentations with price controls on food and energy have led to shortages in the near-term and heightened price pressures over time.

Fortunately, incentive-based government policies can help address inequality. To start, legislators should aim to make more households owners of more capital. Last year, only about half of private-sector workers participated in work-based retirement plans; automatic enrollment and more equitable tax incentives for saving can move the needle. The average age for first-time homebuying has risen from twenty-eight to forty over the past generation; downpayment support and a more abundant housing stock will help families buy homes earlier in their lives.

Second, too many markets feature too little competition—including the market for labor. Here, a host of reforms can help workers receive wages that match their economic contributions, including limiting the prevalence of non-compete agreements, mandatory arbitration, and occupational licensing. Wages should also be made more transparent to help workers bargain for higher pay.

Third, policymakers can help lower costs for working families by allowing markets to better supply the goods and services demanded by households. Childcare, medical services, and housing are simply too scarce. Tax credits for businesses to build childcare centers, expanded roles for nurse practitioners, and upzoning near transportation hubs are obvious solutions.

Rather than replacing capitalism, the best thing governments can do to improve the wellbeing of their citizens is to foster markets where participants are free to compete and negotiate—what Adam Smith called “the system of natural liberty.” Two and a half centuries after Smith, market competition continues to provide consumers with products and services in greater abundance and at lower prices. This should be our economic north star.



Instead of reinforcing income inequality, AI could support economic abundance.

PETER E. HARRELL

Nonresident Senior Fellow, Carnegie Endowment for International Peace, and former White House Senior Director for International Economics

Policymakers in Washington and around the world are rightly concerned that artificial intelligence will further increase wealth inequality by consolidating an ever-larger share of economic output in the hands of the handful of companies that create AI—companies that employ minuscule numbers of actual humans. Anthropic, the company behind Claude, for example employs less than two-tenths of a percent of Walmart’s American workforce.

But another path is possible. Rather than increasing inequality, AI could foster a world in which a tireless, infinitely patient intelligence creates novel ideas and inventions that any human can use for free. Instead of reinforcing income inequality, AI could support economic abundance.

One of the keys to this world is a radical rethink of intellectual property law. A world in which AI-created ideas receive intellectual property protection is a world in which the companies that make and deploy AI reap most of the rewards. Conversely, a world in which any idea that AI comes up can be used for free by anyone would be a world in which AI could drive down costs for many of the products and services that people rely on every day

Take software and digital services, on which the average American spends more than \$3,000 every year. If AI-created software, music, television shows, and other IP can be copied by anyone for free, the costs Americans pay for those products should drop to almost nothing. On the other hand, a movie studio or recording agency that wants to keep getting royalties will need to employ actual human beings to make art. Or take medicine. AI is already proving promising in discovering potential new drug molecules. If AI-invented drugs are patent-free, costs will fall dramatically—just as generic drugs are today vastly cheaper than on-patent medicines.

In the United States, the law is already moving this way, with courts holding that inventions and creative works created entirely by AI are not entitled to patents and copyright protection. This is because the law has

long treated intellectual property protections not as a natural right but as an incentive to spur human creativity. AI-created ideas are not created by humans.

But the reality is that companies are quietly fighting back, arguing that as long as a human plays some small role, even a minuscule one, in the creative process, the company should be entitled to IP protections. The government needs to overhaul the law to make clear that inventions and creative works in which AI plays a predominant role are entitled to a much-reduced level of protection, and in many cases none at all. A medicine largely created by AI, for example, should receive just a handful of years of exclusive patent protection, reflecting the costs associated with tests and regulatory approvals, rather than the twenty years of protection medicines currently get in the United States. A movie in which a human being just spent a few minutes editing an AI creation should receive no intellectual property protection at all.

AI systems learned from humans. They were trained, overwhelming for free, on the corpus of human work. AI’s ideas should be returned to us, free for all, and for the common benefit of mankind.



The best thing our leaders can do for American capitalism is to do their job.

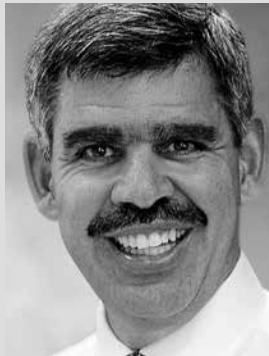
EDWIN M. TRUMAN

Research Fellow, Mossavar-Rahmani Center for Business and Government, Harvard Kennedy School, and former Assistant Secretary for International Affairs, U.S. Treasury

American capitalism has evolved over at least 150 years and will continue to do so. The United States does not need an ideological revolution nor it likely to adopt an entirely new model. The best thing our leaders can do for American capitalism is to do their job: to restore fiscal integrity while remaking and strengthening the social safety net. Taxes need to be raised on those with incomes more than, say, \$150,000 a year. Social security taxes need to be applied to higher incomes and recipients’ benefits means-tested. Other benefit programs need to be means-tested. Inheritance taxes should be restored to much higher levels. The carried interest tax loophole

should be closed. Defense spending should be reduced by de-politicizing continuations of programs. These measures should release sufficient funds to rebuild and strengthen our social safety net, for example by instituting a program of wage insurance when workers lose their jobs for any reason, trade, technology, or bad management.

Note: The analogy to federal spending to stabilize the financial system after the 2008 crisis does not apply. The U.S. government made a profit from those operations!



American capitalism risks becoming too reactive in an increasingly unstable world.

MOHAMED A. EL-ERIAN

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American capitalism is currently being reimagined, primarily driven by political reactions to its recent slippages and the shifting geopolitical landscape. However, the elements of this change will face obstacles in reaching that elusive “Third Way”—a path that promotes lasting prosperity that is inclusive, not just in wealth and income but also in opportunities.

The facts speak for themselves. The U.S. economy has consistently outperformed other developed nations—and not just by a small margin. Fueled by high productivity, abundant risk capital, and vibrant entrepreneurship, the United States has maintained an “exceptional” status in both current and future growth projections. With the potential integration of artificial intelligence, the United States is well-positioned to turn technological innovation into sustained productivity improvements and economic expansion.

However, what has been true at the macro level has been challenged at the micro level. Top-down success has not translated into broad-based bottom-up security and stability. Too many citizens feel alienated and marginalized, creating a fractured social landscape. The result is not only unbalanced growth but also political strain and a growing risk to collective social well-being.

We have witnessed more than just a “K-shaped” economy characterized by inequalities of wealth, income, and opportunity; there has also been an erosion of the

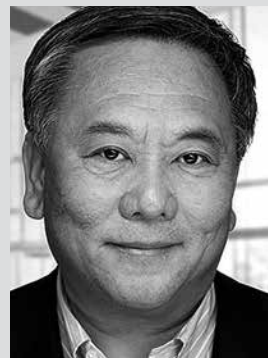
“American Dream” itself. This pressure has manifested in political changes that have essentially upended the “Washington Consensus” under which the United States advocated that other countries follow it in pursuing trade liberalization, fiscal responsibility, and central bank operational independence as the path to prosperity.

Today, the playbook is changing. Trade liberalization is being replaced by the weaponization of tariffs and investment sanctions. Fiscal responsibility has shifted to maintaining large deficits even during periods of full employment. Industrial policy has re-emerged, with increasing evidence of the government picking “winners.” And the vital political independence of the Federal Reserve is coming under growing political attack.

This re-imagining of American capitalism isn’t driven mainly by economic or commercial logic. Instead, it increasingly reflects the influence of domestic politics, geopolitics, and national security. We have entered the era of geo-economics, where, in addition to the upheaval of the Washington Consensus, globalization is giving way to fragmentation, distinct spheres of influence, multipolar tensions, and countries left out.

The challenge is that this fundamental shift seems to be being pursued more tactically than strategically. While the previous era of unfettered globalization led to a political backlash, the new era of increased *ad hoc* state intervention appears to be unfolding opportunistically.

Without a stronger strategic foundation, it remains uncertain whether these changes will lead to the inclusive “Third Way” that many hope for. Instead of a purposeful evolution that maintains America’s dominant role in the global economy, American capitalism risks becoming too reactive in an increasingly unstable world.



A “third way” is not just desirable. It is necessary for major economies.

CHEN ZHAO

Chief Global Strategist, Alpine Macro

Since time immemorial, policymakers have struggled with the trade-off between efficiency and equality. Countries that place efficiency ahead of equality

tend to experience faster economic growth, higher equity multiples, and more rapid wealth creation and accumulation than those that prioritize equality. However, nations choosing “efficiency before equality” often end up with greater income disparity, with labor income growth lagging far behind capital’s share.

The United States is a classic example of efficiency first. Its economic system is organized around free-market capitalism—profit maximization and winner-take-all dynamics. This has produced a highly dynamic economy, with a strong concentration of innovation and rapid technological advancement. China’s economic reforms since the late 1970s, in essence, flipped “equality first” on its head, unleashing a massive wave of growth and wealth creation, but at the cost of rapidly rising income inequality.

Europe, by contrast, represents an “equality first” model. Gini coefficients across EU countries are significantly lower than those of the United States or China, suggesting a more equitable distribution of income. The downside, however, is that the European economy has stagnated, weighed down by excessive regulation, red tape, welfare, and weaker incentives for wealth creation. Euro-area unemployment, for example, has been chronically higher than that of the United States for decades.

Neither outcome is ideal. Widening income disparity under an “efficiency first” model can lead to social discontent and political polarization. Conversely, an “equality first” approach risks prolonged economic stagnation, which can fuel nationalism and political radicalization. A “third way,” therefore, is not just desirable. It is necessary for major economies.

Everyone may define this “third way” differently, but in my view, it rests on three key components:

First, focus on equality of opportunity rather than equality of outcome. Policies that expand access to quality education, healthcare, and basic infrastructure can promote both equity and efficiency. A healthier, better-educated workforce is more productive, adaptable, and innovative. Europe should consider deregulating parts of its economy and trimming excess welfare, while the United States should invest more in education and healthcare.

Second, the structure of markets matters. Competition policy should promote healthy competition while preventing the formation of monopolistic power, which is often a root cause of both inefficiency and inequality.

Third, policymakers should design tax systems that preserve market incentives while avoiding extreme inequality. A progressive tax regime without punitive marginal rates can fund public goods while maintaining incentives for entrepreneurship, innovation, and wealth creation.

The bottom line is that no system perfectly resolves this trade-off. But the experience of various economies suggests that it can be managed, even softened. The goal is not to eliminate inequality or maximize growth at all

costs, but to build a framework in which economic dynamism and social cohesion reinforce each other. In that sense, the “third way” is less a fixed model than a guiding principle: align incentives so that what is good for growth is also, as much as possible, good for society as a whole.



The core issue is not the size of the financial system, but its purpose.

KEVIN P. GALLAGHER

Professor, Boston University Pardee School of Global Studies, and Director, Boston University Global Development Policy Center

For forty years, American policymakers have tolerated a profound imbalance at the heart of the economy: the explosive growth of finance without a commensurate increase in productive investment. Since 1980, the U.S. financial system—measured by total assets and liabilities—has ballooned roughly twenty-fold, from about \$2.5 trillion to nearly \$50 trillion. Over that same period, gross fixed capital formation has remained stubbornly flat at around 20 percent of GDP. Finance has grown; investment has not. That divergence is not a coincidence—it is the result of policy choices.

The modern financial system is extraordinarily good at generating and trading claims on wealth, but far less effective at creating new wealth in the real economy. Capital is recycled into existing assets—real estate, equities such as corporate stock buybacks, complex financial instruments—because the incentives reward short-term returns, liquidity, and capital gains over long-term, employment-intensive investment toward a low-carbon, socially equal, and more resilient U.S. economy. The result is an economy characterized by asset inflation, rising inequality, and underinvestment in the very sectors that determine future prosperity.

In principle, the United States could address this imbalance through progressive taxation and redistribution. In practice, such efforts are repeatedly diluted or blocked. If direct redistribution is politically constrained, then the second-best strategy is clear: rewire the incentives of the financial system itself.

This means aligning private financial returns with public economic goals. Regulatory, tax, and credit policies should favor lending and investment in productive sectors—advanced manufacturing, the digital economy, green energy, and critical infrastructure—while discouraging purely speculative activity. Public development banks, targeted credit guidance, and revised capital requirements can all play a role in shifting the flow of funds. If finance has grown to dominate the economy, it must also be made to serve it.

Equally important is where that investment goes. Revitalizing public education is not just a social objective but an economic necessity; lowering its cost and expanding access would raise human capital and long-term productivity. At the same time, strengthening workers' bargaining power—over wages, pensions, and even the allocation of capital itself—can help ensure that investment translates into broad-based gains rather than concentrated wealth.

The core issue is not the size of the financial system, but its purpose. A multi-trillion financial sector that fails to increase productive capacity is not a sign of strength; it is evidence of misallocation. Policymakers do not need to shrink finance—they need to discipline and direct it. Until the incentives change, capital will continue to chase returns rather than build the future.



We need a full upheaval in our institutions to allow capitalism to work better.

DAVID R. MALPASS
Former President, World Bank

No, American capitalism does not need to be reimagined. We need a full upheaval in our institutions to allow capitalism to work better—major reforms to repair failing government systems, principles, and institutions, not a reimagining of capitalism.

Mistakes in our systems are causing very real problems in terms of income inequality, affordability, and weak growth in median income. We should set much higher aspirations for the human condition. The fault is in current systems, not capitalism.

I advocate defending the dollar, rewriting the fake U.S. debt limit to provide checks and balances on the size of government, and DOGE-sized shrinkage in multinational institutions, central banks, and the regulatory state.

The current system protects China's Belt and Road loans, burdening development. The system wasted hundreds of billions of dollars on climate spending without seeking impact, focus, or benefit. Globalism feeds income inequality by protecting and subsidizing the elite. For decades, the system protected trade imbalances that hollowed out U.S. manufacturing capabilities and created dependency on China's production. It will take energetic capitalism to repair the damage.

The system fostered currency debasement, the surest path to serfdom and income inequality. For the United States, a stable dollar policy would lower interest expense, expand the global use of the dollar, and break the cycles of inflation and deflation that have eroded living standards and contributed to income inequality. It is the only path to achieving lower interest rates along the whole yield curve.

Central banking needs a full upheaval in its models to shift from inflation targeting to a price rule based on currency stability. Central banks are trapped in repeated failures that view excess growth as inflationary. Post-2008 economic models have failed by encouraging enormous central bank balance sheets that crowd out small businesses and financial innovation and hiding accountability by mixing monetary and fiscal policies.

In the United States, we need to rewrite the fake debt limit and the pretend budget system. They provide no limits on the size of government, the reach of the regulatory state, or the government's demand for new taxes. Under the current system, government has no boundaries or guardrails on its size, hence the projections of continued rapid growth in the U.S. government's debt-to-GDP ratio and the related drain on global savings.

The results around the world show clearly that capitalism works better than socialism, communism, autocracy, and anarchy. It is the institutions that are failing. Europe is destroying itself and its youth by fighting capitalism rather than fixing Europe's destructive governments and institutions. Developing countries are falling further into poverty due to confiscatory currency policies and corruption, not capitalism.

The demographic exodus from high-tax states in the United States shows clearly that capitalism works and lifts median income while socialism fails. Capitalism has been a huge success through private property, entrepreneurialism, merit, individual choice, and free markets operating in a transparent legal and regulatory framework. The result is an incredible pace of innovation in manufacturing, technology, chemistry, agriculture, energy, and biology. If we pause to reimagine capitalism

rather than fix institutional failures, the cost in lost progress would be astronomical.



There would appear to be a strong case for the introduction of a universal basic income coupled with serious reform to current social welfare programs.

DESMOND LACHMAN

Senior Fellow, American Enterprise Institute

Even before the start of the second Trump administration, the U.S. political economy was characterized by an unhealthy degree of income and wealth inequality. That inequality will now be accentuated by the Trump One Big Beautiful Bill Act's tax cuts and health expenditure reductions as well as by Trump's aggressive trade policy that has raised import tariffs to their highest level in the last hundred years. It will also be exacerbated over the longer run by the major displacement of workers and the wage compression that must be expected from the increased application of artificial intelligence in the workplace.

If the experience of the 2008–2009 Great Economic Recession's aftermath is anything by which to go, we must also expect that the bursting of the current credit and stock market bubbles will accentuate our country's inequality problem. This would especially be the case should we get an energy- and food-price shock as a result of a prolonged closure of the Straits of Hormuz and war-related damage to Persian Gulf energy production facilities. The inequality problem could also be aggravated by a resurgence of inflation resulting from the country's ballooning budget deficit problem and from Trump's relentless attacks on the Federal Reserve's independence.

All of this heightens the need for fundamental economic reform aimed at reducing income and wealth inequality with a view to reducing political polarization and social unrest. However, in making reforms, it will be of the essence not to throw the baby out with the bath water. If there is one thing that we know, it is that a market-based economy is a necessary condition for long-term economic prosperity.

Given the size of the inequality problem, a multifaceted program of market-based economic reforms is required. Those reforms might include expanding the earned-income tax credit; eliminating tax loopholes and

lowering tax rates along the lines of the 2010 Bowles-Simpson report; vigorous anti-trust enforcement with a view to increasing competition and reducing prices; increased investment in early education and training; and increased access to healthcare and housing.

Even more important from a long-term point of view are fundamental reforms to deal with the high degree of unemployment, especially among entry-level and white-collar workers, that must be expected from the AI revolution that is now gathering pace. The AI revolution could lead to a labor market shock on the scale of that experienced during the Industrial Revolution. Beyond retraining programs, there would appear to be a strong case for the introduction of a universal basic income coupled with serious reform to current social welfare programs to cope with rising unemployment levels.



Capitalism in America is already being rethought, and not in good ways.

BENJAMIN M. FRIEDMAN

William Joseph Maier Professor of Political Economy, Harvard University, and author, Religion and the Rise of Capitalism (2022) and The Moral Consequences of Economic Growth (2006)

Capitalism in America is already being rethought, and not in good ways. It is ironic that, just as we are marking the 250th anniversary of the publication of Adam Smith's *The Wealth of Nations* (on March 9, 1776), the United States is abandoning the competitive market economy that has historically served the nation so well in favor of a new combination of authoritarian *dirigisme*—government ownership of a significant share of the equity in major business corporations, a multi-trillion-dollar fund provided under duress by foreign countries to be invested at the personal direction of the president, tariffs continually set and reset for reasons unrelated to economic policy, government pressure on the choice of corporate chief executives—and crony capitalism that increasingly resembles the mercantilist system of government-granted monopolies against which Smith squarely directed his great book.

At the same time, because in the economic sphere the label “conservative” has typically been associated with support for capitalism, the meaning of this word is likewise undergoing change. As recently as a dozen years ago, a speaker who recommended government equity ownership in private corporations at a Republican Party convention, or at a meeting sponsored by CPAC or any other conservative group, would likely have been booed off the stage. In the 1990s, the prospect of federally operated pension funds becoming major shareholders in private corporations was what especially worried Fed Chair Alan Greenspan about the prospect (which also now seems far-fetched) that the U.S. Treasury might pay off its entire outstanding debt. Suggestions of government direction of private investment, outside of specified areas like defense or other industries subject to obvious externalities, would have met a similarly harsh reception. Such ideas would have been labeled socialist or even communist. Today they are instead dogmas of the new capitalism American-style.

These changes are especially worrisome in the context of the increasingly intense U.S. rivalry with China. The great leg up America always enjoyed, especially *vis-à-vis* China, was this country’s mostly competitive, market-based economy, mostly free of first-magnitude corruption. (Any informed reader will understand that the two mostly’s are important here.) Willingly sacrificing this advantage is a poor choice.



American capitalism doesn't need to be reimagined. It needs to be reformed.

MARK SOBEL

U.S. Chair, Official Monetary and Financial Institutions Forum, and former Deputy Assistant Secretary for International Monetary and Financial Policy, U.S. Treasury

American capitalism doesn't need to be reimagined. It needs to be reformed. Where to begin? Fiscal policy embodies critical stabilization and distributional functions. The United States needs to get its debt and deficits under control and to provide

greater social protection. Instead, because our political class lacks the guts to be responsible, neither objective is achievable.

On the stabilization front, federal revenue is some 17 percent of GDP and spending 23 percent. Fiscal responsibility calls for concerted gradual action on both. Views on the split differ, but for example, an 18.5 percent revenue/GDP ratio would hardly constitute “big government” and a 21.5 percent spending/GDP ratio is consistent with historic averages. Is America incapable of finding \$10 trillion in savings over ten years? Absent greater fiscal responsibility and a sustainable path forward, longer-term interest rates will be pushed up, threatening social protections, crowding out investment, raising financial stability concerns, and undermining competitiveness.

On distribution, lower quintiles feel squeezed, anguished over “affordability” and perceptions about growing inequality and stagnant real wages. Many elderly rely almost exclusively on Social Security and Medicare, even though these programs face dire financial straits. Along with other social protections and the budget more generally, they need to be oriented more toward helping lower-income households. Bold action will reinforce societal buy-in for a more competitive economy.

Artificial intelligence may threaten future jobs. It should not be unfettered, nor is the answer to stand in AI's way. Workers should be provided with proper adjustment assistance and training.

Since 9/11, national security considerations have played a growing role in shaping economic policy. That is understandable. Given China's rise and Russia's barbaric war against Ukraine, the world is a less safe place. But geoeconomics and economic statecraft need guideposts. Government may have a role to play in curbing advanced chip exports and accelerating development of rare earth minerals. But it must proceed carefully, rather than building a broad industrial policy picking winners and losers, let alone shielding declining industries or masking protectionism.

The Administration has dubiously intervened into commerce—to wit, the golden share in U.S. Steel, TikTok payments, or taking a revenue slice from Nvidia chips sold to China.

Increased tariffs hurt competition, often protecting unprofitable sectors at enormous costs to taxpayers and consumers. The United States should abolish egregious forms of protectionism, such as on steel, on agricultural products such as sugar, and through provisions such as the Jones Act and Buy American.

Market concentration is rising across the board. Anti-trust regulation should be reexamined. America's opaque health system accounts for 18 percent of GDP, vastly more than other advanced economies with more aged populations. Unnecessary licensing procedures harm competition.

America should be far more concerned about crony capitalism. Campaign finance donations, for example by the crypto lobby, heavily influence policy and often in detrimental ways to society.

The Greatest Generation proudly overcame epic challenges for the good of the country, far greater than what the United States faces today. With reforms and an ounce of courage from leadership, a more robust competitive economy and just society is well within reach.



Let the oligarchs fund education and the arts with tax-deductible “gifts,” as well as water, sewer, and services through taxes on the value of their land. There’s no need to shoot them.

JAMES K. GALBRAITH

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The premise is overstated.

The Dow Jones is a “fata morgana”—a mirage—taken over long periods, it has an upward bias, because fading and failing firms exit the index. The stagnation of the “real median wage” is another mirage. The mirage stems from the fact that the workforce is mostly in services, where the entry of young people, secondary earners, and immigrants at low wages has pulled the median (that is, the 50th percentile) downward—even though within each of these groups real wages have usually been rising. Manufacturing wages (almost all above the median) have continued to rise, and salaries of professionals, even more.

Overall, with more workers per household, household income inequality after taxes in the United States has scarcely increased—except for the capital incomes that accrue especially to the tiny group of tech and finance oligarchs, mainly in enclaves like Manhattan, San Francisco, Seattle, Northern Virginia and Jackson Hole. Those, of course, are obscene.

The problem is manageable. Step one: raise wages, especially the minimum, fund public services decently, provide housing and control rents in the rich enclaves, and

back it all up with a job guarantee, so that anyone who wants work at a living wage can have it.

Step two: tax large estates and gifts steeply and without escape, except for charitable contributions to non-profits *that the billionaires do not control*. Also, tax land value (and not improvements)—the old Henry George solution, which has worked miracles for American cities in the past.

Call me a conservative, I don’t mind, but there’s no need to gut the financial protections provided by social insurance—Social Security, Medicare, and Medicaid still provide effective safeguards against poverty for the working population in old age.

There’s also no need for a new “wealth tax”—we already have one, if we would use it. Let the oligarchs fund education and the arts with tax-deductible “gifts,” as well as water, sewer, and services through taxes on the value of their land. There’s no need to shoot them: just separate them, at an early age, from most of their wealth and all of their power.

These common sense measures do meet monied resistance. That’s because they would work, if they were tried.



In the age of artificial intelligence, we need a Newer Deal to replace the Second Gilded Age. The mixed economy remains the middle way between the extremes of plutocratic capitalism and state socialism.

MICHAEL LIND

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Plutocratic capitalism and state socialism are failed models of technological society. Plutocratic capitalism like that of the United States in the 1900s and the 2000s concentrates economic control, political power, and social influence in a tiny, irresponsible private elite. State socialism in communist countries concentrates economic control, political power, and social influence in a tiny, irresponsible political elite. In the twenty-first century, as in the twentieth, the alternative to plutocracy and socialism is the mixed economy.

The mixed economy is powered by the creative collaboration of the public, private, and nonprofit sectors. During the New Deal era from the 1930s to the

1980s, the combination of research and development in nonprofit research universities like Stanford and the Massachusetts Institute of Technology, contracting by the Defense Department and NASA, and private entrepreneurialism engendered entirely new industries like jet travel and space travel and nuclear energy and computers. Labor unions in the industrial core forced companies to share profits with workers as well as managers and investors. The power of workers to bargain for decent wages in the absence of unions was magnified by tight labor markets caused by low immigration and the practical impossibility of offshoring production at the time.

In the neoliberal era that began in the 1990s, the American mixed economy was replaced by a second Gilded Age. American business has waged “lawfare” against organized labor, while pitting American workers against low-wage foreign competitors, through outsourcing or mass immigration, legal and illegal. The refusal of Congress to regulate natural monopolies like search engines (Google), online commerce (Amazon), and payment systems (PayPal) as public utilities has allowed these utilities to enrich a few oligarchs. The new tycoons convert their immense wealth into political influence through campaign donations and purchases of major media. Meanwhile, they expand their idiosyncratic personal influence over culture and society with billionaire-endowed family foundations that dwarf traditional charities.

The solution is neither a difficult-to-collect wealth tax on billionaires nor massive cash redistribution from the rich to the poor. The mixed economy in the United States must be renewed with the tools of pre-tax “predistribution,” not after-tax “redistribution.”

Sectors that are natural monopolies like online commerce and fintech should be either publicly provided or regulated as privately owned public utilities, overseen by nonpartisan utility commissions. Medical prices should be set by bargaining among providers and government, in the United States as in most advanced economies. Intellectual property rights should be curtailed to reward entrepreneurialism without creating excessive wealth. Sectoral collective bargaining or wage boards and restriction of wage-suppressing immigration can empower workers to obtain higher shares of company profits, as an alternative to after-tax redistribution.

Higher consumption taxes on the rich, such as progressive property taxes, state and local sales taxes, and a federal value-added tax, are hard to evade, unlike personal and corporate income taxes. Capital gains should be taxed as ordinary income, along with inheritances.

In the age of artificial intelligence, we need a Newer Deal to replace the Second Gilded Age. The mixed economy remains the middle way between the extremes of plutocratic capitalism and state socialism.



Beware: wealth concentration measured across all households regardless of age will create an illusion of inequality even in a society where lifetime income is equally distributed.

WILLIAM R. CLINE

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American capitalism and its foundation of private ownership of the means of production combined with progressive taxation has yielded the most impressive growth among the advanced economies. The question is whether it is once again time, as in 1933, for a significant reform toward greater U.S. progressivity. An important issue is whether some form of wealth tax could increase progressivity without substantially curbing growth. The top ten U.S. billionaires today are all entrepreneurs, predominantly in the technology sector (Elon Musk, Larry Ellison, Mark Zuckerberg, Jeff Bezos, Larry Page, Sergey Brin, Steve Ballmer, Jensen Huang, Warren Buffett, and Michael Dell).

There seems to be some question now as to whether wealth taxation is unconstitutional, as has long been the dominant view. But suppose a tax of 40 percent (the effective top marginal tax rate on income at present) were imposed on the imputed income of all billionaires. Imputation would make it possible in effect to tax unrealized capital gains. The United States has about nine hundred billionaires accounting for some \$7.8 trillion in net worth, or 4.5 percent of the \$172.9 trillion total U.S. household wealth in 2025. A reasonable estimate of imputed annual income on high wealth is 4 percent real return on wealth, placing the total real annual capital income of the nine hundred billionaires at \$312 billion. A 40 percent tax would raise \$125 billion. Applying Warren Buffett’s self-reported average tax rate of 17.7 percent, they already pay an estimated \$55 billion. So limiting coverage to billionaires would mean additional revenue of only \$70 billion annually, or 0.23 percent of GDP.

A more ambitious wealth tax might extend coverage to the top 1 percent of households, beginning at threshold wealth of about \$14 million per household and accounting for about 30 percent of total wealth. Such a tax might increase net revenue by about 1.5 percent of GDP [0.23 x (30/4.5)]. In principle such revenue could make a

meaningful contribution to such initiatives as baby bonds or public support for child care. In practice, the United States already faces a critical need to reduce the federal deficit from its now chronic 6 percent of GDP to 3 percent to make debt sustainable, while keeping even the current level of public support in place.

Although calls for redistribution have intensified, household wealth grew slightly more equal from 2010–2014 to 2021–2025. The share of the bottom 50 percent had fallen from 3.7 percent in 1989–93 to 0.68 percent in 2010–2014, but partially revived to 2.49 percent by 2021–2025. Attention has focused instead on an increase in the most extreme wealth. The share of the top 0.1 percent rose from 9.2 percent in the first period to 11.8 percent in the second and 13.8 percent in the third. The Gini coefficient of inequality for wealth (with one for complete inequality

and zero for complete equality) rose from 0.67 to 0.76 before easing slightly to 0.73.

Finally, it is important to recognize that the usual metrics for inequality cause a substantial exaggeration when applied to wealth. Because there is a normal accumulation of assets by each household as it matures over decades and establishes enough capital to draw back down during retirement, wealth concentration measured across all households regardless of age will create an illusion of inequality even in a society where lifetime income is equally distributed. It can be shown that in a society with constant population and U.S. profiles for age-cohort median salaries and actuarial structure, a life-cycle (Modigliani-Brumberg) saving path generates a wealth Gini coefficient of 0.3, even though by definition the lifetime wealth path is identical for all households. ♦

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