Progressive Capitalism in A Radical Age

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Abstract

Joseph Stiglitz's proposes transforming America's "liberal capitalism" into "progressive capitalism" by encouraging socially responsible corporations to include progressive stakeholders in corporate decision-making. He suggests that the time may be ripe because the Business Roundtable recently endorsed efforts to make American corporations more socially responsible. He predicts that if the Business Roundtable is sincere, progressive socially responsible, stakeholder and shareholder joint sovereign corporations will create a more dynamic economy, with greater shared prosperity and uplift the majority again to a middle-class life. However, Stiglitz fails to probe the contradictions and moral hazards inherent in stakeholder-shareholder co-sovereignty that could transform his dream into a nightmare.

This essay elaborates and critically evaluates Stiglitz's concept in the contemporary American political context. It shows that while progressive

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Introduction

The merit of economic systems partly depends on the degree to which corporate behavior facilitates the maximization of social welfare. Socially responsible corporations support this objective; socially irresponsible ones do not. There are good and bad societies. Opinions differ widely regarding their classification. Liberals emphasize the importance of maximizing the quality of individual existence. Socialists, progressives and others stress the maximization of the quality of existence of diverse groups, or specific ideals. This essay investigates the strengths and weaknesses of Joseph Stiglitz's case for creating "progressive capitalism" built on the foundation stone of "stakeholder" corporate sovereignty.

Progressive Capitalism

Joseph Stiglitz recently sparked a revival of interest in progressive capitalism with the publication of People, Power, and Profits: Progressive Capitalism for an Age of Discontent and an article (Is Stakeholder Capitalism Really Back?) heralding the notion that America's "Business Roundtable" may be forsaking Milton Friedman's shareholder in favor of stakeholder capitalism. Stiglitz (2019) wrote that society needs a better understanding about the true source of "the wealth of a nation" which lies in the creativity and productivity of the nation's people and their productive interactions with each other and their institutions. He explains how progressive improvements of capitalism, particularly the state institutional structuring of

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markets, Stiglitz (2017) would achieve a more dynamic economy, with greater shared prosperity and uplift the majority again to a middle-class life. He champions sustainable and inclusive economic growth (Stiglitz, 2016), environmental protection and income equality (Stiglitz, 2015).

Stiglitz's outlook is consistent with a strain of American progressive-liberal academic corporate governance theory that emphasizes socially responsible democratic competitive market systems, Aras & Crowther (2016) and more broadly with the ideas of Claude Henri de Rouvroy, comte de Saint-Simon (1760-1825) (Taylor, 1975), François Marie Charles Fourier (1772-1837) (Fourier, 1971), Richard Tawney (1880-1962) (Tawney, 2004), Oscar Lange (1904-1965) (Lange, 1936), Abba Lerner (1903-1982) (Lerner, 1938), James Mead (1907-1995) (Meade, 2013), and John Kenneth Galbraith (1908-2006) (Galbraith, 1967). His appeal to progressive corporate responsibility has always been an aspect of the liberal competitive theory (Palladino, 2019). Adam Smith insisted that market competition, guided by the invisible hand was only desirable if people were attentive to their moral duty (Smith, 1759).

The devil, however, is in the details of social responsibility. Who speaks for society? Marx, Stalin, Hitler, Obama, workers, minorities, radical feminists, socialists, progressives, liberals, conservatives?

Is the state the voice of the people? Are corporations agents of the state?

Governments of all sorts assert that they are responsive to the people's will, and therefore as the people's representatives have the right to establish property right regimes, complementary law, regulate, tax, transfer and mandate. They determine stakeholders' legitimacy and power, and delegate or share this authority with private companies. Governments can impose stakeholder rights; corporations can freely embrace them, or both.

Stakeholder Corporations

Stiglitz (2017) in the progressive-liberal rational choice tradition seeing "transparency" as the antidote for the danger of state capture, focuses on corporate rather than political governance, trying to persuade boards of directors to invest in human capital (shareholder and stakeholder capital alike) rather than short-term shareholder profit maximization which he ascribes to Milton Friedman. He admonishes capitalist (for-profit, market competitive) corporations to do right for everyone by doing right for shareholders and society. This win-win outlook works, if stakeholders play by Stiglitz's imperfectly competitive progressive-liberal Paretian rules (Clark, 1940); that is, everyone earns his or her "fair" marginal value product (Rosefielde, 2015), given a consensus Bergsonian social welfare function (Bergson, 1938).

Progressive-liberal rational choice theory teaches that corporations and governments should roughly behave as Stiglitz urges subject to his "fairness" constraint (Pareto, 2014). Stakeholder corporations should reflect on his progressive ethical guidance, and if they concur, profit maximizes accordingly.

Why then does Stiglitz contend that progressive-liberal stakeholder capitalism is a burning issue? The invisible hand and moral duty should have transformed theory into "fair" practice. Is it because corporate shareholders and corporate boards of directors disagree with Stiglitz's notion of progressive duty that implicitly makes stakeholders the dominant voice in "stakeholder capitalism" (Stiglitz, 2015) Do they object to his progressive-liberal Pareto rational axioms that shunt stakeholder power seeking, and moral hazard into the background, (Sawicky, 2020) or both?

Shareholders and corporate boards of directors appear to disagree with Stiglitz's notion of progressive duty. The spirit of the "Business Roundtable" endorsement of "stakeholder capitalism" that Stiglitz references does not put stakeholders in command as he desires. It is discordant with the progressive-liberal causes that he advocates, as well as the more radical demands of other stakeholder enthusiasts. The Business Roundtable statement, echoing prior declarations of purpose, expresses its members' desire to be good corporate citizens and neighbors, committing them to do right by their customers, suppliers, employees, and the communities where they work. It pledges members to train and education that helps develop new skills for a rapidly changing world, as well as fostering diversity and inclusion, dignity and respect. It embraces "fair" compensation, honest business practices, transparency and effective engagement with shareholders. There is no mention of employee inclusion on management boards (German codetermination) (McGaughey, 2016), Yugoslav style worker participation, (Estrin & Uvalić, 2008) or Japanese consensus building worker-management practices (Aoki, Jackson & Miyajima, 2008). There is no commitment to stakeholder consultation regarding entitlement, affirmative action, restorative justice, radical feminist, minority, sexuality, immigrant, transnational, global redistributionist and environmentalist causes. There is no discussion of stakeholder claims on corporate revenues, assets, product assortment, characteristics, workplace health and safety and projects. American progressives of various persuasions, including Stiglitz in his role as public intellectual urge Washington to adopt an expansive political economic agenda for the downtrodden, abused and needy, but the Business Roundtable is silent on all these matters (Ha-Jun, Joseph & the World Bank, 2002).

Shareholders also appear to disagree with Stiglitz's progressive-liberal rationality axioms that require them to shun rent seeking and disregard the perils of stakeholder moral hazard. The Business Roundtable shows no indication that its members' desire restricting executive pay and perks to Stiglitz's fair compensation standard, or that members are willing to accept the justice of stakeholders' claims for sharing wealth, income and control, including worker co-sovereignty (Weitzman, 1986). Accepting outside stakeholders' assurances that their demands are just and they are acting in good faith could easily lead to internecine power struggles that paralyze shareholder governance and destroy corporations. Outsiders have nothing to lose. Insiders risk everything by incautiously accepting the moral hazard that comes with stakeholders' rights to co-govern, or dominate as the term "stakeholder capitalism" implies.

The radical-progressive threat to shareholder sovereignty is apparent in its contemporary American political agenda. Radical-progressives, unlike traditional progressive-liberal welfare state advocates, vigorously attack the classical principle that individuals receive the value of their marginal products or a "fair" approximation, that people should be self-reliant, that markets should distribute goods, that financial responsibility is essential, and that economic growth and prosperity are fundamental to the quality of social existence (Rosefielde & Mills, 1959). Stiglitz as a progressive-liberal stresses the importance of economic growth, development and prudent debt management. Most of today's American radical-progressives, echoing Karl Marx's Economic and Philosophical Manuscripts of 1844 (Marx, 1959), want a guaranteed high standard of living for everyone regardless of employment, ability and effort. (Appiah, 2018). (They want a completely egalitarian distribution of income and wealth, except for supplementary transfers to those with special needs, and those deserving restorative justice reparations. The especially needy include the mentally, psychologically and physically handicapped, radical feminists, ethnic and racial minorities, Moslems, immigrants, and radical-progressive activists at home and across the globe. Radical-progressives pay no heed to financial prudence in accordance with the "new monetary theory" that sees no harm from printing money without limit to pay all current expenditures and debts (Modern Monetary Theory, 2015). This "infantile leftism" is a replay of Nikolai Bukharin and Evgeny Preobrazhensky's ABC's of Communism (1920), instrumental in the Bolshevik economic collapse during the period of "War Communism" (Lenin, 1920).

Business Roundtable members for obvious reasons are reluctant to adopt Stiglitz's progressive-liberalism and, of course, rightly fear that radical-progressives will transform shareholder corporations into stakeholder communes for the "deserving" subsidized by Washington's money printing press that confiscates shareholders' revenue and wealth. They are unlikely to acquiesce to progressive-liberal or radical-progressive efforts at persuasion, but a radical-progressive state might compel them to do so. Should this occur, everyone will suffer except social progressives benefiting from income and asset transfers. Stakeholder capitalism at the corporate level may appear attractive to some progressive-liberal competitive market theorists when imagined in terms of abstruse social responsibility, but the danger of adverse radical progressive capture is significant.

Conclusion

Joseph Stiglitz recently constructed a case for "progressive capitalism" built on the foundation stone of "stakeholder" corporate sovereignty. The notion of a socially responsible America is broadly appealing, but his proposal is flawed. Stakeholder capitalism is an oxymoron. If stakeholders are in command, the system cannot be capitalist. If capitalists are in control, stakeholders cannot be sovereign. The contradiction could be nominally reconciled by assuming that stakeholders and shareholders have identical preferences, but then stakeholder capitalism would be superfluous. The contradiction also is resolvable by assuming that shareholders and corporate boards of directors responsibly modify their preferences to maximize the quality of social existence, but this is only possible in the never-never-land case where everyone ultimately shares identical preferences. Stakeholder capitalism built on the foundation stone of "stakeholder" corporate sovereignty is a chimera.

Stiglitz's suggestion that it is reasonable to experiment with stakeholder capitalism on learning by doing basis is disingenuous, if as is the case there are sound grounds for concern that stakeholders will pillage assets and bankrupt their companies. The danger is apparent in American radical progressive agitation for jettisoning capitalism in a favor of an economic system that provides a guaranteed high standard of living for everyone regardless of employment, ability and effort, a completely egalitarian distribution of income and wealth, except for supplementary transfers to those with special needs, and those deserving restorative justice reparations. Stiglitz does not endorse radical progressivism. He himself favors progressive capitalism that is competitive enough to sustain efficient production, rapid economic growth and fiscal responsibility, but he needs to explain how to accomplish this in an America allergic to rational policy choice making.

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