



## Popular Economics Weekly

### David Stockman's Crony Capitalism

[Paul Krugman](#) is being too gentle with [David Stockman](#), whose recent New York Times ‘rant’ glorifies the gold standard and denigrates government for standing in the way of putting “free markets and genuine wealth creation back into capitalism”.

“...like so many in his camp, Mr. Stockman misunderstands the meaning of rising debt,” writes Krugman. “Unemployment, not excessive money printing, is what ails us now — and policy should be doing more, not less.”

In fact, Stockman would return us to an earlier era of crony capitalism, before any form of financial regulation, such as by the Federal Reserve. The result then as now is huge income and wealth inequalities that have been the main cause of the Great Depression and major recessions—the last five just since 1980 during administrations that advocated deregulation and a similar opposition to financial regulation.

And then as now, there is an answer to the Oligarchies that ruled Big Business, as corporate monopolies have again concentrated their power today. President Obama gave a speech in [Osawatimie, Kansas](#) on December 6, 2011 about that earlier era. Osawatimie was the small town where Teddy Roosevelt gave his now famous “[New Nationalism](#)” [speech in 1910](#) that called upon the three branches of the federal government to put the public welfare before the interests of money and property, because we were at a similar historical juncture. Corporate interests again control 2 branches of government—Congress and the Supreme Court—as they had in the early 1900s.

“At the turn of the last century, when a nation of farmers was transitioning to become the world's industrial giant, we had to decide,” said Obama. “Would we settle for a country where most of the new railroads and factories were being controlled by a few giant monopolies that kept prices high and wages low?... Because there were people who thought massive inequality and exploitation of people was just the price you pay for progress.”

Greater equality of opportunity is what economists such as Nobel Laureate [Joseph Stiglitz](#) are calling for today, in renewing the cry that we are all in this together. “There are four major reasons inequality is squelching our recovery,” says Stiglitz. “The most immediate is that our middle class is too weak to support the consumer spending that has historically driven our economic growth. While the top 1 percent of income earners took home 93 percent of the growth in incomes in 2010, the households in the middle — who are most likely to spend their incomes rather than save them and who are, in a sense, the true job creators — have lower household incomes, adjusted for inflation, than they did in 1996.”

Yet greater economic opportunity is more than a moral issue of what is fair, or even the core American value of everyone’s right to the pursuit of happiness. It can be inevitable if modern technology is allowed to fulfill its promise for all, rather than have its benefits be monopolized by the few.

For in an era where technology is replacing workers making the necessities of life at an ever accelerating rate, more Americans will have more leisure time to pursue their own interests. And more importantly, the ever increasing productivity of those technologies can lift all boats—that is, provide more necessities, as well as amenities to improve lives—rather than go only to the profit makers.

In giving his Kansas plea for a new nationalism of the common good, President Obama was going back to a time when Robber Barons ruled, having made enormous



wealth from the founding of the railroads, banks, oil and steel industries in the 19<sup>th</sup> century.

It was the beginning of the Industrial Revolution, when most of America was rural and Oligarchs ruled government and business. Sound familiar? That has happened once again with the enormous fortunes created via deregulation and the digital revolution. And once again the majority of American households are suffering from the excesses of this modern revolution that has outdistanced the safeguards that were established to protect householders from those excesses.

“The American people are right in demanding that new Nationalism without which we cannot hope to deal with new problems,” [said Roosevelt](#). “The new Nationalism puts the National need before sectional or personal advantage. It is impatient of the utter confusion that results from local legislatures attempting to treat National issues as local issues. It is still more impatient of the impotence which springs from over-division of governmental powers, the impotence which makes it possible for local selfishness or for legal cunning, hired by wealthy special interests, to bring National activities to a deadlock. This new Nationalism regards the executive power as the steward of public welfare. It demands of the judiciary that it shall be interested primarily in human welfare rather than in property, just as it demands that the representative.”

Actually, much of the Great Recession and slow recovery is due to widespread ignorance of economic fundamentals that depend on the public’s welfare. For no economy can prosper if educational and environmental standards are ignored, which enable social mobility and good health. It is also an ignorance of what is in our national interest. Raising educational and environmental standards, restoring our aging infrastructure, and creating a truly universal health care system make us more competitive globally.

Don’t take my word for it. Lord John Maynard Keynes saw the consequences of increasing abundance in his 1930 essay, [Economic Possibilities for our Grandchildren](#): “Thus for the first time since his creation man will be faced with his real, his permanent problem – how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well. The strenuous purposeful money-makers may carry all of us along with them into the lap of economic abundance. But it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes.”

And we are beginning to see that abundance, as well as the means to share it more fully, if the Stockman’s of the world would stop glorifying self-interested behavior. Professor Robert Shiller discusses how this can happen in his recent book, [“The New Financial Order, Risk in the 21<sup>st</sup> Century”](#), in which he lays out what our new information technologies will be able to do, just as the Industrial Revolution ultimately benefited most Americans.

“Right now we are witnessing an explosion of new information systems, payments systems, electronic markets, online personal financial planners, and other technologically induced economic innovations, and consequently much in our economy will be changed within just a few years. Almost all of our economy will be transformed within just a few decades. This new technology can do cheaply what once was expensive by systematizing our approach to risk management and by generating vast new repositories of information that make it possible for us to disperse risk and contain hazard.”

It will do all this by leveling the playing field in order to create a greater transparency of markets, as financial information in particular will be available to all.



Therefore much of the risk in one's profession, or housing value, or even health, will be able to be insured against unexpected events, such as recessions, or loss of career, or debilitating illnesses because of the new information technologies.

That is the real revolution happening today. Who will benefit from such modern information technologies--the few or the many? Because it will become more difficult for those who profit from such ignorance to accumulate excessive power. Stockman is wrong in believing we should turn back the clock. Or, as Teddy Roosevelt knew, we will continue to repeat past history.

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