

BOOK REVIEW

Joseph E. Stiglitz, *The Road to Freedom: Economics and the Good Society*, Melbourne, Allen Lane, 2024, pp. xxii + 356, ISBN: 978-0-241-70387-8, A \$36.99 (paperback)

In the opening paragraph of this treatise on economics and freedom, Joseph Stiglitz quotes philosopher Isaiah Berlin who said, ‘Freedom for the wolves has often meant death to the sheep’ (ix) (Berlin, 1969). Stiglitz is concerned with the connections between economic and political freedoms. He maintains that the concept of trade-offs which

sits at the center of economics...[has] much to add to discussions of freedom... Economics provides tools to think about the nature of the trade-offs that should be central to discussions of freedom and how trade-offs should be addressed (xiv).

Stiglitz says, ‘A refrain throughout this book is that *one person’s freedom can often amount to another’s unfreedom*’ (italics in original). He adds

Only through collective action, through government can we achieve a balance of freedoms. Well-designed government actions, including regulations that restrain behavior in some ways, can be in a fundamental sense liberating, or at least can be for a large proportion of the population... People who are living on the edge have, in some sense, no freedom. They do what they can to survive. But to give them resources they need to live decent lives, let alone to live up to their potential, requires taxing the whole community (3).

Twenty-first-century economies are characterised by high levels of market power where companies take advantage of other peoples’ ‘lack of information and other vulnerabilities’, or indulge in what Stiglitz describes as ‘the freedom to exploit’ (122). ‘The fact that a contract is voluntarily entered into does not mean it is not exploitive... Someone might sign an exploitive labor contract if it is the only way he can survive’ (85). Stiglitz says, ‘When one party exploits another, her income may grow and her freedom expand, but the other person loses and his freedom to choose contracts’ (123). He points to how companies have been able to exploit their monopsony power, aided and abetted by anti-union legislation and the threat to move operations off-shore to force workers to accept low wages and poor working conditions. In such a situation, ‘Employees are coerced into working more’ (125).

In another example, he refers to where monopolists have total control over the drugs that one needs to live. Such a monopolist ‘has real coercive power. He could force me to give up everything to survive. To what extent is this different from being held up at gunpoint’ (126). During COVID-19, India and South Africa asked the World Trade Organization (WTO) for an intellectual property waiver on the use of COVID-19-relevant intellectual property. The WTO refused. Stiglitz says ‘The WTO made a decision about the trade-offs in play. Drug company profits trumped the welfare of billions. The freedom to exploit beat the freedom to live’ (138).

Stiglitz points to how libertarians object to paying taxes because it robs them of their liberty. They maintain they have a fundamental right to spend their income as they choose, income derived from their ‘honest hard work, creative energy, and skills in

investing'. He sarcastically adds that we should also include 'their skills in choosing the right parents'. He also refers to children who 'had simply lost the conception lottery' (38). Stiglitz maintains that 'there is no moral legitimacy to market incomes' as 'in many cases they are derived from exploitation' (103–104). He points to incomes/wealth that have been derived from slavery and the Chinese opium trade in the nineteenth century. We could also add income derived from gangsterism and corruption. Stiglitz comments on how 'mainstream' economics has 'paid short shrift to why different individuals had different assets; why some had more education, others less; some more capital, and others less... When illegitimately begotten wealth is passed down the generations, it remains morally illegitimate even hundreds of years later' (105).

Mainstream economics makes use of the model of perfect competition, with all of its unrealistic assumptions, as a heuristic device as a means to investigate and understand basic economic concepts and ideas. Its primary function should be as a tool to aid understanding and thinking. The real world does not operate according to this model. Many markets are not characterised by large numbers of buyers and sellers where there is perfect information and everyone is a price taker. When the real world departs from this basic model, when there are examples of market failure and concentrations of market power and externalities, the role of economists *should* be to make recommendations to help (re)solve such problems. The object *should* be to make markets more competitive, to overcome and restrict market power, and to enhance opportunities for more economic agents. This is essentially the role that Stiglitz has committed himself to not only in this book but over more than half a century of research and scholarship.

For neoclassical and neoliberal economists, the model of perfect competition and the notion of the market, whether perfect or imperfect, are not so much a heuristic device but rather something sacred and to be revered. Even when there are problems with the operation of markets, they maintain that governments should keep their distance and not intervene as, in time, markets will self-correct, resolve such problems, and resume their efficient operation. Neoliberals perceive government intervention as harming economic efficiency.

Stiglitz comments that such a supposition represents 'a fantasy world in which no one has market or political power and everyone has perfect information. No one can take advantage of anyone else' (140). The real world is not like this. Stiglitz describes what happens when an abuse of market power is brought to public attention.

Of course, when firms engaging in anticompetitive exploitation are charged with doing so under competition laws, well-paid economists come to the defence of the corporations. They look at behavior that seems on the face of it exploitive, doing little more, for instance, than extending and strengthening market power, and claim that it is not. They assert for some arcane reason, an obviously anticompetitive action actually increases economic efficiency. Teams of lawyers and economists get paid hundreds of millions of dollars every year to convince courts that what is clearly the exploitation of market power is nothing more than the wonders of the market economy. They work hard to explain away the high and persistent profits of the firms with such obvious market power (140).

Stiglitz provides an example of how this 'fantasy world' operates in examining what he describes of the Chicago economist Gary Becker's 'infamous book' (157), *The Economics of Discrimination* (Becker, 1957). Becker maintained that discrimination could not occur in a competitive economy, as employers would employ those who experienced discrimination at lower wages than the non-discriminated, allowing them to sell their goods at a lower price and drive discriminating firms out of business. Stiglitz says that with Becker teaching at the University of Chicago 'in an essentially white enclave in the midst of a low-income

African American neighbourhood, it might have seemed hard to reconcile such reasoning with the massive discrimination that was going on right in front of him' (157).

Stiglitz says that Becker resolved this problem by claiming that African American workers were being paid less than the non-discriminated as their labour was of a lower quality. Of course, it would be expected that discriminated workers would be of a lower quality, possessing less human capital and being of poorer health, due to their experiencing discrimination. Stiglitz explained the persistence of discrimination against African Americans in terms of the broader societal impact of Jim Crow. Those firms who refused 'to discriminate could themselves be punished possibly by being discriminated against. And anyone who, in turn, failed to punish nondiscrimination would themselves be punished. In this way, a discriminatory equilibrium can be sustained... [those] not prejudiced... simply were afraid of being punished for violating the discriminatory social norms' (157–158).

Neoliberal economists were successful in convincing governments to deregulate banks. Then there was the financial crisis of 2008, something that theoretically should never have occurred, nor the subsequent bailout of banks by the government. Stiglitz describes this as where

... the so-called deregulation of the banks got government *temporarily* out of the way, which allowed bankers to reap the rewards for themselves. But then, with the 2008 financial crisis, governments took center stage as it funded the largest bailout in history, courtesy of taxpayers... Neoliberalism *in practice* was what can be described as "ersatz capitalism," in which losses are socialized and gains privatized (29, italics in the original).

For Stiglitz, the major problem with neoliberalism is that it constitutes a fundamental attack on the operation of capitalism and a weakening of democracy. It leads to concentrations of economic power, increases inequality, and an erosion of trust, which is essential to the operation of a society. It nudges people to become brutish and fearful, anxious about their future. Together with the emergence of platforms, which distribute false and fake information, it encourages populists and demagogues and the erosion of democratic norms.

Joseph E. Stiglitz's *The Road To Freedom: Economics and the Good Society* is an outstanding work of scholarship. He demonstrates how economists' traditional tools can be used to enhance opportunities and freedom for persons living in market economies. He affords a positive role for governments to intervene in and act to improve the operation of markets and the overall welfare of society. He rejects neoliberalism because of its adverse impact on economic and political freedom and argues for an approach which he describes as progressive capitalism where government plays a positive role in enabling all citizens to live a decent life, a life where they have the opportunity to realise their potential.

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