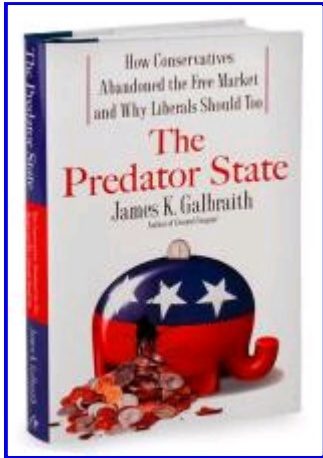


[FDL Book Salon Welcomes James K. Galbraith - The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too](#)

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By: [Dean Baker](#) Sunday May 24, 2009 2:00 pm



[Beyond the Predator State](#)

Jamie's book does an excellent job chronicling how the conservative doctrines of the 70s and 80s, monetarism and supply-side economics, were twisted into their opposites by the "conservatives" who actually held power in the last thirty years. The Republicans who rode to power espousing these views, beginning with Reagan, were interested in special tax breaks and sweetheart contracts for their friends, not small government and "free markets."

This history has unhinged conservatism. Principled conservatives no longer want to be associated with the political practitioners, recognizing the corruption of the doctrine in practice. However, this corruption was inevitable for a movement that has disdain for government as one of its guiding principles.

There is little to dispute in Jamie's excellent account of recent history and economics. The history of the last three decades, and especially the two terms of George W. Bush's presidency, has been an embarrassment to principled conservatives, which most readily acknowledge.

Since I can't pick any fights with Jamie going backward, let me try on his route going forward. Having debated many of these conservatives over the years, I occasionally shut my mouth long enough to listen to what they were saying. In particular, the more honest libertarian types (Bill Niskanen, the former chairman of the CATO Institute, is my model here) do have some insights that are worth taking seriously.

A properly structured market will often be a more effective tool for accomplishing goals like promoting equality and growth than more direct government intervention. Many of the worst features of modern America should be understood as the result of government engineering that was designed to redistribute income upwards. This upward redistribution can best be reversed by simply changing these structures.

The most obvious case is the extraordinary compensation packages earned by top executives of major corporations. This is due to the fact that the top executives effectively control corporations rather than shareholders. If the compensation packages of the top five paid employees of corporations were sent out for approval by shareholders in elections where only returned proxies counted (management generally has the right to count unreturned proxies as supporting its position), it is likely that executive compensation would be brought back down to earth.

Since the government already sets rules for corporate governance (primarily to protect the rights of minority shareholders), this would not involve any greater intervention into the market. It would simply be a recognition of the fact that the existing governance structure no longer works, that top management is now running corporations to meet its own ends. If we can put an end to the outlandish pay packages of high-level corporate management, then it may bring down the pay of top management in other areas as well, such as universities, hospitals, and other non-profit organizations.

Intellectual property, in the form of patent and copyright monopolies, is a major distortion of the market that has the effect of allowing a small number of people to become incredibly rich. Bill Gates is the richest man in the world today because the government gives him a monopoly on Windows. It will arrest anyone who makes copies of Windows without his permission.

The same is true of patent protection for prescription drugs. Drugs that would sell for a few dollars per prescription in a competitive market instead sell for several hundred dollars or even several thousand dollars because the government grants patent monopolies. As a result of these monopolies, Pfizer, Merck and the rest make enormous profits, while hundreds of millions of people around the world have difficulty paying for their health care.

We do need mechanisms to support creative and artistic work and innovation in the care of prescription drugs, but there are far more efficient mechanisms that could be designed and would involve less interference with the market. In other words, the answer lies with less government rather than more.

The final example I will mention is the effective protection that highly paid professionals (e.g. doctors, dentists, lawyers) enjoy as a result of professional and licensing restrictions. These restrictions largely protect the most educated workers from having to compete against low-paid workers in the developing world in the same way as manufacturing workers.

Progressives can help promote both equality and economic efficiency by removing these barriers. Making it as easy as possible for smart kids from Mexico, India, and China to work in the United States as doctors and lawyers would substantially lower pay for those at the top and also substantially reduce the cost of health care and other services where the pay of these professionals is a substantial part of the cost.

There are many other areas where we can look to restructure current rules so that the market distributes income downward instead of upward. There is no reason to be shy about using the government in areas where it is more efficient than the private sector such as providing a core retirement income to workers through Social Security or providing health care insurance.

However, there is no more reason for progressives to be glued to “big” government than conservatives. Many of the tasks that feature prominently on most progressives’ agenda can be accomplished at least as effectively by using the market. We just have to learn to be as creative in structuring markets as the Republicans.