
Jeffrey Sachs: Fairness and the Occupy Movement Revisited

A recent *Wall Street Journal* [article](#) by Arthur C. Brooks on the Occupy Movement and fairness («Fairness and the ‘Occupy’ Movement, November 25) says some interesting things about potential common ground between free-market ideas and the Occupy movement. Yet Brooks also commits some very important errors. Perhaps with clearer facts there could be more common ground on reforming the economy and politics.

Brooks, the head of the American Enterprise Institute, denounces crony capitalism as the dark side of American politics and economics. On this we should all agree. The level of corruption in Washington is staggering, growing, and rife in both parties. The White House and Congress dispense billions of dollars of favors to political supporters like a non-stop vending machine. The new book by Peter Schweitzer on crony capitalism (*Throw Them All Out*, Houghton Mifflin Harcourt, 2011) should be required reading. Even if wrong on some particulars, as some members of Congress charge, its overall message is powerful and correct.

Where Brooks goes wrong is his description of inequality and fairness. The Republican view, which he espouses, is to reduce taxes, cut government services, and let markets be the standard of fairness. Here Brooks is deceptive in his rendition of the facts.

First, Brooks downplays the extent of inequality that has been built up in thirty years of crony capitalism. He favorably writes that «every income quintile has seen a real increase in purchasing power of at least 18% over the past 30 years,» citing a recent study of the Congressional Budget Office (CBO). Yet the real point of the CBO report, which Brooks does not mention, is that the richest 1% enjoyed a staggering

rise of 275%, while the poorest stumbled by with a meager 18% gain. Moreover, the CBO report takes the data only to 2007. By now, even those meager gains at the bottom have been mostly lost.

Second, Brooks fails to note that the situation for the poor will be drastically worse if federal transfer programs are cut as the Republican Party is urging. The poorest quintile depends on these federal programs to stay alive. If the poorest Americans had to survive without government support, their incomes would be slashed to disastrous levels.

The Republicans answer to crony capitalism is to slash government. Yet by this they mean mainly an attack on the remaining social programs. This is a kind of bait-and-switch strategy: rev up the anger against government corruption, and then kill the life-support programs of the poor and working class. Crony capitalism exists mainly in the big-ticket sectors of the economy -- banking, oil, real estate, private health insurance, military contractors, and infrastructure -- not in the essential but much smaller parts of the economy: malnutrition of poor children, lack of quality pre-school, insufficient job training, and inadequate student loan coverage.

Yes, crony capitalism should be confronted anywhere in the economy, yet cutting the life-support systems for the working class and poor won't fix government, but instead would cripple the prospects of more than 100 million poor and near-poor Americans. To control crony capitalism, we need to direct our attention where it belongs: the wealth-support systems of the rich, not the life-support systems of the poor.

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Here are five specific actions against crony capitalism that should appeal across the political spectrum.

First, restore the Glass-Steagall Act's separation of commercial banking and investment banking, and strongly regulate derivatives trading. The financial casino continues to infect the core of the banking system and the real economy.

Second, prosecute the law-breakers of the 2008 crisis. Virtually every marquee firm on Wall Street, including Citigroup, Goldman Sachs, and JP Morgan, committed financial fraud. Lead bankers who oversaw the fraudulent practices are still in place, and need to go.

Third, retire politicians like Congressman Paul Ryan who pressed for financial deregulation on the grounds of «free markets,» but who then called for Wall Street bailouts when the crisis hit. They are the agents of moral hazard.

Fourth, end the rampant tax loopholes that allow America's biggest companies to park their profits in the Caribbean tax havens. Rather than giving tax amnesties to these companies, we should pull the plug on these tax abuses.

Fifth, crack down on Congressional insider trading. Members of Congress are not only swayed by their big campaign contributors and the lobbyists who hire their families and staff, but also by the prospect of personal gains through trading on their insider information and access to sweetheart deals. Congress's approval rating is on its way to zero.

The biggest point of contention between the free-marketers like Brooks and the Occupy Movement is the affirmative role of government in American society. Today's free-marketers need to re-learn the wisdom of Adam Smith, Friedrich Hayek, and Milton Friedman, whom they praise but don't read. These

earlier free-market advocates were very clear about the need for government to help the poor, protect the environment, and provide public goods including scientific research and infrastructure.

Today's free-marketers are different. They downplay the suffering of the poor and the extent of inequality. They deny the science of climate change. They stand by as the public infrastructure collapses. They disdain the hallowed tradition of federal support for science and education.

They subscribe instead to the ugly philosophy of Ayn Rand, who preached that there is no such thing as society or social responsibility, only a collection of individuals. Rand's philosophy is a tribute to greed, hate, and ruthlessness. Smith, Hayek, and Friedman would have been aghast. So are most Americans.

Yes, Mr. Brooks, let us find common ground. We all agree on the need to end crony capitalism. But let us also work together not to cripple government but to make it work for all Americans.

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