Has Davos man changed?

By Joseph E. Stiglitz
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The discussion at Davos this year may be part of a move in the right direction toward a more sustainable capitalism. But we need to see some proof: corporations paying taxes and livable wages, for a start, and respecting – and even advocating – government regulations to protect our health, safety, workers, and the environment.

This year marked the 50th anniversary of the World Economic Forum's flagship meeting of the world's business and political elites in Davos, Switzerland. Much has changed since my first Davos in 1995. Back then, there was euphoria over globalization, hope for ex-communist countries' transition to the market, and confidence that new technologies would open up new vistas from which all would benefit. Businesses, working with government, would lead the way.

Today, with the world facing climate, environmental, and inequality crises, the mood is very different. Facebook, willing to provide a platform for mis-/disinformation and political manipulation, regardless of the consequences for democracy, has shown the dangers of a privately controlled monopolistic surveillance economy. Corporate leaders, and not just in the financial sector, have displayed remarkable moral turpitude.

Moreover, multilateralism is under attack. Its strongest defender historically, the United States, now has an administration committed to "America First," and to undermining global cooperation, even as the need for cooperation in a host of areas – including peace, health, and the environment – becomes increasingly apparent.

This year's meeting highlighted disenchantment with the increasingly dominant American model of shareholder-first, profit-maximizing firms. More than 50 years ago, WEF founder and head Klaus Schwab argued for *stakeholder capitalism*: enterprises should be accountable for the interests of their customers, workers, communities, and the environment, as well as their shareholders. Some 45 years ago, with Sandy Grossman, I showed in a standard economic framework that maximizing shareholder value would not maximize societal welfare. In speech after speech this year, business leaders and academics explained how Milton Friedman's successful advocacy of shareholder capitalism led directly to the crises we face today – including, in the US, opioid addiction, childhood diabetes, declining life expectancy amid soaring "deaths of despair" – and the political divisions they have fueled.

To be sure, recognition that there is a problem is necessary if we are to change course. But we also have to understand that the causes of societal maladies go beyond maximizing shareholder value. At the root of the problem is neoliberalism's excessive faith in markets and skepticism of government, which underpins a policy agenda focused on deregulation and tax cuts. After a 40-year experiment, we can declare it a failure. Growth has been lower, and most of the gains went to the top. While this should be obvious, there is no consensus among our business leaders.

Even though the applause for US President Donald Trump, who delivered one of the opening addresses, was the most anemic I have seen for a global leader, almost no one openly criticized him. Perhaps audience members feared a critical tweet or felt gratitude for a tax cut that benefited billionaires and large corporations at the expense of nearly everyone else (indeed, tax rates in the US will rise for some 70% of those in the middle).

Cognitive dissonance – or dishonesty – was on full display. Attendees could highlight the importance of climate change and tout their corporations' response to it, and yet welcome Trump's deregulation, which will allow the US, already the leader in *per capita* greenhouse-gas emissions, to pollute even more.

Moreover, despite much talk about stakeholder capitalism, there was no discussion of reducing CEO and managerial pay to ameliorate growing pay disparities, or of the first element of corporate social responsibility: paying your fair share of taxes by curbing multinational tax avoidance, and ensuring that developing countries get a fair share of tax revenues. This led Rob Cox, global editor of Reuters Breakingviews, to suggest that stakeholder capitalism might be a strategy to unfetter CEOs even more: If they fail to meet profit goals, they could waffle and say they were meeting broader environmental, social, and governance objectives.

Nor were reforms that might increase workers' bargaining power, through the strengthening of unions and collective bargaining, at the center of the discussion, even though in Europe such reforms are at the top of the new European Commission's agenda. To their credit, a few US firms, such as PayPal, explained their commitment to paying *livable wages*, going well beyond the minimum wage mandated by law.

And yet *some* of the business leaders at Davos this year, especially those from Europe, seemed to have grasped the urgency of responding to climate change and the scope of what is needed. And some have actually taken giant strides. There might still be some "greenwashing" – banks that talk about energy-efficient light bulbs as they lend money to coal-fired power plants – but the tide has turned.

A few business leaders also recognized that our economic and social maladies will not cure themselves – that even if most businesses were socially motivated, a single-minded focus on profits entails a race to the bottom. A soft-drink company that doesn't want to produce addictive sugar-rich drinks that can contribute to childhood diabetes risks losing out to a less scrupulous enterprise.

In short, unfettered capitalism has played a central role in creating the multiple crises confronting our societies today. If capitalism is to work – if it is to address these crises and serve society – it can't do so in its current form. There must be a new kind of capitalism – what I have elsewhere called progressive capitalism, entailing a better balance of government, markets, and civil society.

The discussion at Davos this year may be part of a move in the right direction, but if leaders truly mean what they say, we need to see some proof: corporations paying taxes and livable wages, for a start, and respecting – and even advocating – government regulations to protect our health, safety, workers, and the environment.

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