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Capitalism, Version 2012

By THOMAS L. FRIEDMAN

David Rothkopf, the chief executive and editor-at-large of Foreign Policy magazine, has a smart new book out, entitled “Power, Inc.,” about the epic rivalry between big business and government that captures, in many ways, what the 2012 election should be about — and it’s not “contraception,” although the word does begin with a “C.” It’s the future of “capitalism” and whether it will be shaped in America or somewhere else.

Rothkopf argues that while for much of the 20th century the great struggle on the world stage was between capitalism and communism, which capitalism won, the great struggle in the 21st century will be about which version of capitalism will win, which one will prove the most effective at generating growth and become the most emulated.

“Will it be Beijing’s capitalism with Chinese characteristics?” asks Rothkopf. “Will it be the democratic development capitalism of India and Brazil? Will it be entrepreneurial small-state capitalism of Singapore and Israel? Will it be European safety-net capitalism? Or will it be American capitalism?” It is an intriguing question, which raises another: What is American capitalism today, and what will enable it to thrive in the 21st century?

Rothkopf’s view, which I share, is that the thing others have most admired and tried to emulate about American capitalism is precisely what we’ve been ignoring: America’s success for over 200 years was largely due to its healthy, balanced public-private partnership — where government provided the institutions, rules, safety nets, education, research and infrastructure to empower the private sector to innovate, invest and take the risks that promote growth and jobs.

When the private sector overwhelms the public, you get the 2008 subprime crisis. When the public overwhelms the private, you get choking regulations. You need a balance, which is why we have to get past this cartoonish “argument that the choice is either all government or all the market,” argues Rothkopf. The lesson of history, he adds, is that capitalism thrives best when you have this balance, and “when you lose the balance, you get in trouble.”

For that reason, the ideal 2012 election would be one that offered the public competing conservative and liberal versions of the key grand bargains, the key balances, that America needs to forge to adapt its capitalism to this century.

The first is a grand bargain to fix our long-term structural deficit by phasing in \$1 in tax increases, via tax reform, for every \$3 to \$4 in cuts to entitlements and defense over the next decade. If the Republican Party continues to take the view that there must be no tax increases, we’re stuck. Capitalism can’t work without safety nets or fiscal prudence, and we need both in a sustainable balance.

As part of this, we will need an intergenerational grand bargain so we don't end up in an intergenerational civil war. We need a proper balance between government spending on nursing homes and nursery schools — on the last six months of life and the first six months of life.

Another grand bargain we need is between the environmental community and the oil and gas industry over how to do two things at once: safely exploit America's newfound riches in natural gas, while simultaneously building a bridge to a low-carbon energy economy, with greater emphasis on energy efficiency.

Another grand bargain we need is on infrastructure. We have more than a \$2 trillion deficit in bridges, roads, airports, ports and bandwidth, and the government doesn't have the money to make it up. We need a bargain that enables the government to both enlist and partner with the private sector to unleash private investments in infrastructure that will serve the public and offer investors appropriate returns.

Within both education and health care, we need grand bargains that better allocate resources between remediation and prevention. In both health and education, we spend more than anyone else in the world — without better outcomes. We waste too much money treating people for preventable diseases and reteaching students in college what they should have learned in high school. Modern capitalism requires skilled workers and workers with portable health care that allows them to move for any job.

We also need a grand bargain between employers, employees and government — à la Germany — where government provides the incentives for employers to hire, train and retrain labor.

We can't have any of these bargains, though, without a more informed public debate. The "big thing that's missing" in U.S. politics today, Bill Gates said to me in a recent interview, "is this technocratic understanding of the facts and where things are working and where they're not working," so the debate can be driven by data, not ideology.

Capitalism and political systems — like companies — must constantly evolve to stay vital. People are watching how we evolve and whether our version of democratic capitalism can continue to thrive. A lot is at stake here. But if "we continue to treat politics as a reality show played for cheap theatrics," argues Rothkopf, "we increase the likelihood that the next chapter in the ongoing story of capitalism is going to be written somewhere else."