

While acknowledging that post-2012 regulation—aimed at prescribing the expected conduct, reporting procedures, and enforcement against wrongdoing—is “expensive and time-consuming,” McDonald is optimistic that the benefits of the new regime will outweigh its compliance costs. Her discussion of the new rules, however, is mostly descriptive, and she spends little time telling the reader quite why he should be confident that the same regulators who failed to spot and address malfeasance last time will get it right this time. Is it because senior bankers now have “skin in the game,” discouraging them from pleading ignorance of their underlings’ bad behavior? Have new regulations sufficiently increased the information and enforcement powers available to regulators? Do regulators now have stronger incentives to act on suspicions of manipulation? Again, it is up to the reader to decide.

McDonald’s book gives a detailed account of how LIBOR and other benchmark rates came about, how manipulation could take place, and the attempts to eschew the benchmarks’ weaknesses and improve oversight after the scandal. Yet, on a topic as complex as this one, her experienced voice as a former regulator and constant observer of events is too often missing. Most accounts of the LIBOR scandal leave readers with the impression that nothing could have gone wrong were it not for greedy bankers. McDonald shows compellingly that only institutions and incentives can explain why manipulation took place here, and not elsewhere. Alas, her book is not the place to find out what the way forward should be.

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The Future of Capitalism: Facing the New Anxieties

Paul Collier

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Paul Collier, Professor of Economics and Public Policy at the Blavatnik School of Government, Oxford University, acknowledges that writing *The Future of Capitalism* was intellectually “daunting, my proposition being that what was needed was a synthesis of moral philosophy, political economy, finance, economic geography, social psychology and social policy.” In presenting a comprehensive case for what ails capitalism and his “remedies that address our new anxieties,”

Collier proposes “an ethical capitalism that meets standards that are built on values, honed by practical reasoning, and reproduced by the society itself.”

The social bases of these new anxieties, found in North America, Europe, and Japan, are geographic, educational, and moral. The successful “metropolitan-located class” is well educated, affluent, and possesses the skills needed for the 21st century. Individuals in that class have developed a distinctive moral superiority and have elevated group characteristics, such as minority ethnicity and sexual orientation, into “victim” identities. In contrast, the stigmatized “white working class,” is made up of older workers and young, first-time employees, often (but not always) located outside metropolitan hubs; they are employed in less meaningful, lower paying jobs, and have declining living standards. With a growing percentage of wealth accruing to the rich, capitalism has lost some of its popular support and is regarded by many as unfair.

Collier mirrors British political analyst David Goodhart who, in his book *The Road to Somewhere* (2017), describes this socioeconomic-political divide as the “Anywheres” versus the “Somewheres.” The Anywheres are cosmopolitan, educated, mobile, and networked, their lives centered on communities of affinity rather than place, which is secondary. Their politics are progressive or classically liberal. Somewheres, however, are rooted in local communities, where their jobs (often working with their hands or on their feet), commitments, and friendships are part of their families, neighborhoods, and religious congregations. Politically, they tend to be socially conservative, patriotic, and less disposed to vote with their feet.

Collier acknowledges that the parties of the center-left and center-right are incapable of addressing these new anxieties. Ideologues and populists have, since the Great Recession of 2008, replaced social democracy, which was the prevailing political force of the post-World War II era through 1970. Why? Because “the social democrats of the left and right each drifted away from their origins in the practical reciprocity of communities, and became captured by an entirely different group of people who became disproportionately influential: middle-class intellectuals,” who Collier refers to as the “WEIRDS: Western, Educated, Industrial, Rich and Developed.”

The economics profession also incorporated a bastardized version of Jeremy Bentham’s utilitarian morality into its concept of “economic man,” who Collier defines as “utterly selfish and infinitely

greedy, caring about nobody but himself.” The incorporation of economic man into the public policy calculus resulted in post-World War II social democratic policies changing from a foundation of reciprocal obligations of all citizens (i.e., loyalty and fairness) to a toxic combination of utilitarian economics and a morally reliable state justified to redistribute income to whomever had the greatest needs. “Citizens ceased to be moral actors with responsibilities, and were and instead reduced to their role as consumers. The social planner and his Utilitarian vanguard of angels knew best: communitarianism was replaced by social paternalism,” says Collier. From the perspective of communitarianism, one concludes that the interdependence (and balance) among the self, the state, and the market had become increasingly tilted toward the state and market, with the citizen becoming less ethically and morally responsible.

Beginning in the 1970s, political parties of the left abandoned communitarian principles of social democracy, substituting utilitarian and Rawlsian ideologies, the latter ideology focusing on redress for the disadvantaged individual or “victim groups.” Likewise, political parties on the right, embracing the libertarian views of Robert Nozick and Milton Friedman, argued that individuals have rights to freedom that override collective interests, and that freedom to pursue one’s self-interest, constrained only by competition, produces superior results compared to what is achievable through public regulation and planning. While I agree with Collier that the political parties of the left have dutifully embraced utilitarian and Rawlsian orthodoxy, which became starkly apparent in both the United States (Democrat Party) and Britain (Labor Party) in 2019, I do not find this libertarian orthodoxy omnipresent in the U.S. Republican Party or British Conservative Party.

Collier argues in favor of an intellectual reset for social democracy, built upon a foundation of pragmatism and communitarianism. Pragmatism argues that, because societies change, we should not expect eternal truths, and the efficacy of a policy should be judged on whether it works, not on whether it conforms to tenets of an ideology. Furthermore, pragmatism is communitarian in origin, as the task of morality is to fit our actions to the values of our community and the specifics of context. Collier emphasizes that a willingness to help others is the result of combining three narratives: “shared belonging” to a group, “reciprocal obligations” within the group, and a link from an action to the well-being of the group that shows it to be “purposive.”

Collier proposes a manifesto that recognizes an active state, but one that embraces a more modest role; and a functioning market, but one harnessed by a sense of purpose securely grounded in the ethics and philosophy of David Hume and Adam Smith. Collier replaces “economic man” with his conceptualization of “social man,” who cares what others think of him. Moreover, social man, while still rational, views utility beyond his own consumption—namely, to include personal esteem built on a foundation of “shared belonging.” Social man enables us to understand people and induces us to care about them while assessing their moral character.

Restoring ethics to the market, says Collier, involves four societal entities: state, firm, family, and world. The state’s current lack of ethical purpose reflects a moral decline across society, with many people becoming less generously disposed toward those less fortunate. His prescription is not to instill national values (“they fail to distinguish a particular country from many others”), but to cultivate a sense of “belonging to place.” Collier argues that “patriotism” (rather than nationalism), defined as belonging to a common territory, can be used to recapture “belonging” from nationalists and to restore it as central to people’s identity.

At the level of the firm, Collier argues that the prevailing idea that the sole purpose of a firm is to make profits (“shareholder primacy”) needs to give way to a new way of thinking about corporate governance—one that explicitly recognizes that decisions of corporate boards are of importance to the greater society. Consequently, he recommends different rates of corporate taxation by company size, laws requiring due consideration of the public interest for all board members, and legally requiring representation of worker interests on the board of directors (as found in Germany). Finally, while the role of the state as regulator is necessary, policing the public interest for the firm should be the role of informed “ethical citizens.” And while the responsibility of any board of directors is to be the final arbiter of strategy formation in the publicly traded firm, directors should recognize their mutually interdependent relationships with relevant stakeholders in the firm’s environment. Corporate law does not preclude due consideration of the “public interest”; thus, making this a legal requirement would recognize a reality of the 21st century business environment.

The “ethical family” is the natural unit for creating a sense of belonging, according to Collier. However, he sees ethical family structure under siege, with marriage and child rearing diverging between the highly educated and less educated. By 2010, the divorce rate was one-in-three among less-educated couples compared to one-in-six among highly-educated couples, resulting in “many [less-educated] families disintegrating into empty shells” and the paternalistic state becoming more involved with child rearing. Collier’s antidote is that, while the decreasing number of children has reduced the *size* of families, the *longevity* of families has increased. That longevity allows patriarchs and matriarchs to help by “regenerating the force of esteem that polices the obligations of the extended ethical family.”

Building an ethical world today, argues Collier, will require a new multipurpose “club” that reflects the realities of current economic and military power. His proposed G6, consisting of China, India, the United States, the European Union, Russia, and Japan, would “fix” global problems, such as climate change, pandemics, and failing states. He believes it will take years for this club to form, but hopes for a more effective club than the existing international arrangements such as the G20 or G7. For Collier’s G6 to work, the authoritarian and strongly nationalistic governments in China and Russia will require a major infusion of enlightened self-interest.

To heal the cleavages now found in modern capitalist societies, Collier proposes general policies for restoring the inclusive society. The first task is addressing the geographic divide between booming metropolises and broken cities. Collier takes a page from Henry George and recommends taxing the annual appreciation in the value of land and property as a percentage of land and property values, with the revenue accruing nationally to benefit the recovery of broken cities. I hope that these policies that redistribute income will be evaluated based on pragmatism—that is, on the efficacy of whether the policy actually works—and will not continue to be ideologically driven. Of course, designing an equitable formula for distributing this revenue back to the local government will be a public policy challenge.

Collier also recommends private-sector solutions that may regenerate the provincial cities, including legally restricting banks to a specific city so that their futures are dependent upon the success of the

local economy. That proposal, however, ignores the success of branching, which allows banks to diversify their portfolios and hence reduce the risk of failure. Public-sector solutions include (1) compensating pioneering firms like Amazon that locate to broken cities (attracting a mega-firm like Amazon reaps sufficient scale economies entirely with its own operations to justify being a pioneer for broken city redevelopment); (2) providing access to financing through local development banks; (3) establishing business zones that provide dedicated space and infrastructure; (4) organizing investment promotion agencies that forge connections with potential firms; and (5) developing mutually favorable relationships between local universities and local industry. In the United States, emphasis on state and local initiatives to guide urban redevelopment has a strong foundation in federalism.

Addressing the class divide, argues Collier, requires that stressed families be bolstered through public policies (such as an expanded earned income tax credit and supplemental income support programs) that begin early in the child's life and help maintain two-parent families. Moreover, Collier holds that, when adults are parenting a child, encouraging both parents to get a job provides the wrong signal. Providing transfer payments and in-kind support to assist parents at this critical child-rearing time reflects their longer-term contribution to society. Collier also argues for high-quality technical vocational education and training that young people may choose in lieu of the cognitive-focused training found in most universities, and he points to Germany's success in producing a highly productive and well-paid workforce. This latter dose of reality needs further support in the United States.

In conclusion, Collier accuses capitalism of generating divided societies and advocates restoring the pragmatic center to the mainstream political parties in the West. He believes that a "shared identity becomes the foundation for far-sighted reciprocity." Returning to a moral pragmatism, he contends, can guide our politics and regenerate the capitalist system from its recent polarized failure to address the divisions fracturing our societies.

Collier, like Adam Smith before him, is right to focus on the explicit recognition of an ethical foundation for capitalism. I believe, however, that Collier has given short shrift to the importance of religion in Western democracies and to capitalism and its moral foundations. Moreover, the teachings of Christianity, Islam, and

Hinduism, and recognition of their ethical importance in institutional development, can facilitate policy efforts to bolster democracy and capitalism in a global political climate that is increasingly receptive to nationalism, authoritarianism, and socialism.

I agree with Collier's assessment that "the pertinent economic menace is the new and virulent divergence in geographic and class fortunes." Like Collier, University of Chicago economist Raghuram Rajan, in his book *The Third Pillar: How Markets and the State Leave Community Behind* (2019), also proposes "inclusive localism" to rebuild broken cities and offer people dignity, status, and purpose in life. However, I remain unconvinced that substituting *place* for *shared values* will work. As Goodhart notes, the lives of Anywheres center on "communities of affinity rather than place." Considering the divergence in social and political views between the Anywheres and Somewheres, one can only hope that this secondary affinity to place is sufficient to develop patriotism at the national level and economic redevelopment at the non-metropolis, local level.

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Unjust: Social Justice and the Unmaking of America

Noah Rothman

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The "social justice" movement has provided endless oxygen for right-wing media programming. Indeed, many libertarians are inclined to view the budding cottage industry of books, Youtube channels, and Patreon pages devoted to denouncing "social justice warriors (SJWs)" and their ilk as merely the latest conservative fever dream: the Huns are not braying at the gates of Western Civilization. We are not Rome in the 5th century. But into this saturated market steps Noah Rothman with his book *Unjust: Social Justice and the Unmaking of America*. Far from a conservative overreaction to a troubling-but-trivial trend confined to college campuses, Rothman makes the case that the modern "social justice" movement represents a threat to our most fundamental institutions. Riotous uproars on college campuses are but the most theatrical, made-for-TV epiphenomena of this broader and dangerously corrosive ideological crusade.