Markets Built *for* Humans

Creating an Economy for People, Planet, and Democracy

A Guide for Policy Professionals to the New Economics

by Eric Beinhocker and Nick Hanauer

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presented by the Middle Out Center

“The ideas of economists and political philosophers… are more powerful than is commonly understood. Indeed, the world is ruled by little else.”[1]

—John Maynard Keynes

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INTRODUCTION

What This Booklet Is About and Who It's For

> "There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things."[2]
>
> —*Niccolò Machiavelli*

This booklet is based on our forthcoming book, *Market Humanism*. It is a brief guide aimed at policymakers, political strategists, business leaders, journalists, and advocates who are grappling with the profound economic, political, and social challenges of our time. Its goal is to equip you with an understanding of the deep limitations of the economic orthodoxy that dominated policymaking and our politics over the past decades and introduce you to a twenty-first-century economic paradigm that is built to address the challenges we face.

We call this new economic framework **Market Humanism**—an economy and economics whose purpose is to serve human flourishing. And we call the policy agenda and political narrative that flows from it **middle-out economics**—a set of mutually reinforcing policies to expand, empower, and invest in the middle class, strengthening not just our economy but also our democracy.

Market Humanism and middle-out economics are our synthesis of a large body of research conducted by a global community of economists and behavioral, social, and physical scientists over recent decades, as well as real-world experiences in policy and business practice.

Market Humanism and middle-out economics stand in sharp contrast to the economic theories and policy agenda that dominated the U.S. and much of the world from the 1970s through the 2010s. We will refer to this set of ideas as the **neoliberal consensus**, a political ideology that integrated free market theories from neoliberal political economy, neoclassical economics, and libertarian philosophy into a worldview that shaped the policy agendas of both the Republican and Democratic parties from Carter and Reagan through Obama.

That policy agenda is often referred to as **trickle-down economics** because of its emphasis on creating incentives and wealth for owners of capital that would (in theory) trickle down to wage earners in the rest of the economy.

The neoliberal consensus and trickle-down economics did not emerge by accident. These ideas were

Market Humanism

mar·ket hu·man·ism

noun

1. an economy built to serve human flourishing
2. an economics based on twenty-first century science

Middle-Out Economics

mid·dle-out eco·nom·ics

noun

1. the policy agenda and political narrative that flows from Market Humanism
2. a set of mutually reinforcing policies to expand, empower, and invest in the middle class, strengthening not just our economy but also our democracy

The neoliberal consensus and trickle-down economics did not emerge by accident. These ideas were strategically funded, developed, and promoted by an array of business interests and wealthy individuals who benefited to the tune of tens of trillions of dollars from the resulting policies.

A thriving middle class is the key to a society that is high trust, inclusive, and cohesive—essential conditions for both prosperity and democracy.

strategically funded, developed, and promoted by an array of business interests and wealthy individuals who benefited to the tune of tens of trillions of dollars from the resulting policies.

The neoliberal consensus, however, fractured during the global financial crisis of 2008, losing both its intellectual credibility and support from the public. The crisis and the period after revealed a host of problems that had been building for decades—wage stagnation, growing economic insecurity, declining social mobility, the unaffordability of a middle-class life, increasing concentrations of corporate power, a growing plutocracy, and a loss of trust in government, business, the media, and other institutions.

Much of the public did not see either Democrats or Republicans as having credible answers to these challenges. There wasn't a clear alternative to the neoliberal consensus, and politics abhors a vacuum. Into that vacuum stepped Donald Trump and his MAGA movement. Economic issues are certainly not the only reason for Trump's political rise, but they have been a major driver of his appeal.

0.1. There Is an Alternative
A Morally Good Economy Is Also a Prosperous Economy

The key claim of this booklet is **there is an alternative**. We don't have to choose between an exhausted neoliberal orthodoxy and the false promises of economic nationalism. There is another path—Market Humanism—and at its heart lies a reassertion of common-sense morality.

The neoliberal consensus told us that greed is good—that prosperity comes from countless acts of selfishness, guided by the invisible hand of the market. This idea is often traced to Adam Smith, the founder of modern economics. But that is a distortion, popularized by neoliberal figures like Milton Friedman. Smith was not a prophet of greed but a moral philosopher who believed that markets depend on trust, justice, and mutuality.[3] His *The Wealth of Nations* cannot be understood apart from his *The Theory of Moral Sentiments*.[4] For Smith, self-interest could serve the common good—but only when bounded by moral restraint, civic virtue, and good institutions. Unchecked greed, he warned, corrodes the bonds of society and ultimately makes us all poorer.

Market Humanism builds on Smith's insight, reinforced by modern science. What has always made societies prosperous is not selfishness but cooperation. We prosper by solving problems together, by creating and sharing knowledge. Fairness, trust, and inclusion make cooperation possible—and cooperation creates wealth. The real wealth of nations lies in the webs of cooperation and knowledge we build. The true genius of markets is their ability to foster competition between groups to be the best cooperators.

Market Humanism's message is simple: A morally good economy is also a prosperous one. The neoliberal era inverted our values, teaching us that what is bad is good, that greed and injustice were the prices of growth. But this is a false choice. Fairness doesn't hinder prosperity; it's what makes prosperity possible.

This is not to deny that people can be selfish or exploitative. But our real choice is whether our institutions and culture encourage those worst impulses or our best. For decades, pseudo-scientific neoliberal economics told us that greed, and selfishness were necessary evils, the price of prosperity. But in truth, prosperity and justice go hand in hand, and they rise together when we constrain our worst behaviors and cultivate our best. More than 250 years ago, Smith saw that markets depend on the moral and social fabric of society. Our challenge now is to repair that fabric—to rebuild an economy that rewards cooperation and innovation, not exploitation and extraction, and that puts human flourishing at its center.

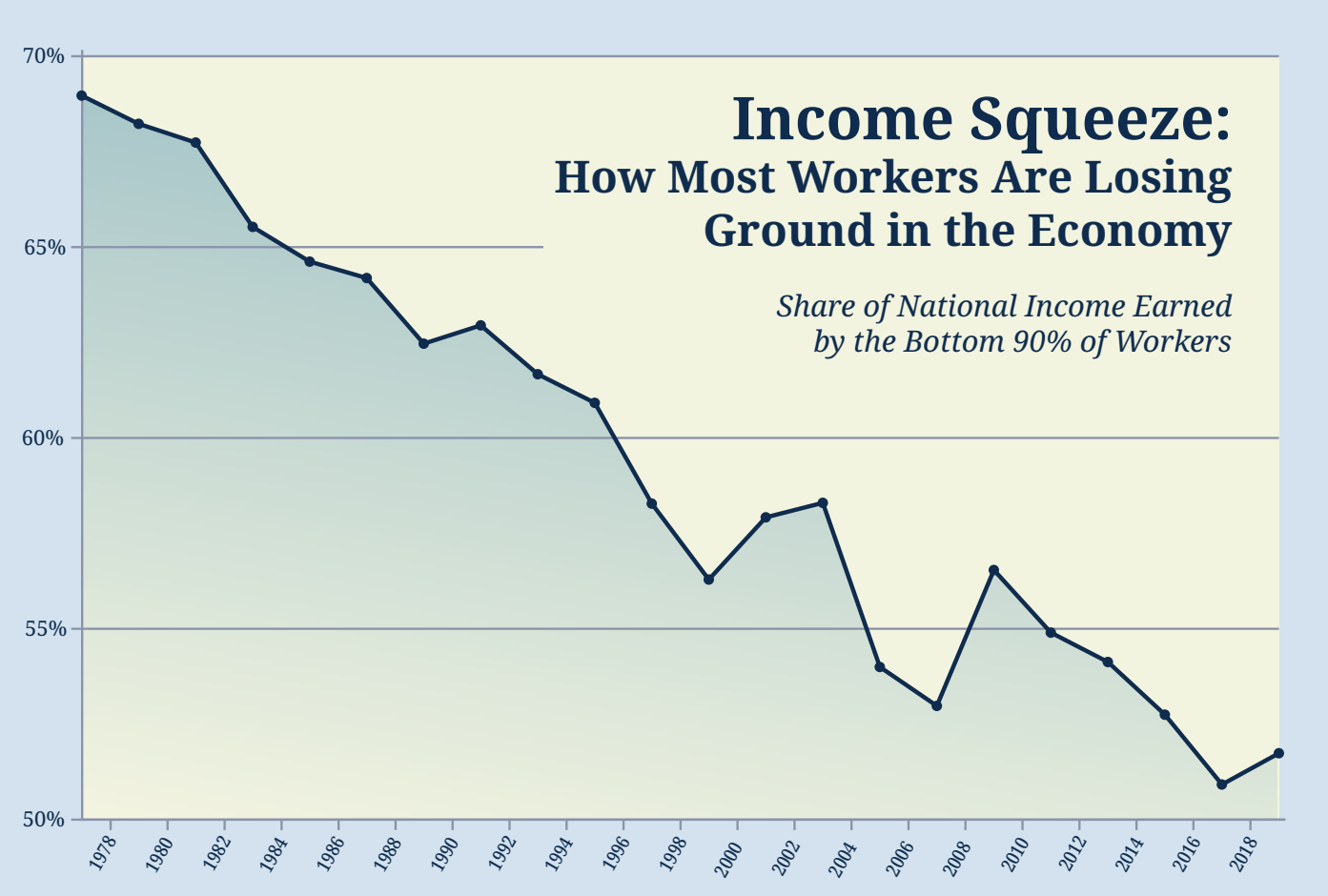
0.2. The Middle Class Is the Foundation

Why Economies Grow from the Middle Out, Not the Top Down

At the heart of this story of how cooperation creates prosperity is the broad middle of the economy—the hardworking families that compose the middle class. It is the broad middle that supplies the bulk of the economy's workers, consumers, savers, and innovators. It is where the wealth-creating networks of cooperation, knowledge, and know-how are built.

In this booklet, we will show that a large, inclusive, thriving middle class is both a cause of economic growth and the foundation of social cohesion that makes democracy successful. We will argue that the economy grows from the "middle out" and does not "trickle down" from the top. And when the middle class does better, so too do *both* the least and the most advantaged. The middle-out policy agenda addresses the very real problems that a majority of Americans have been experiencing and seeks to reset the social contract between voters and their government, as well as between workers and their employers. A thriving middle class is the key to a society that is high trust, inclusive, and cohesive—essential conditions for both prosperity and democracy.

As we will see, history and the new theory show that large, thriving middle classes are not the inevitable byproduct of market processes. Markets are essential for innovation, allocating resources, and providing incentives, but if they are unconstrained, they squeeze out the very middle classes that healthy economies depend on and create the kind of plutocracy that has captured power in the U.S. today. Throughout history, large, thriving middle classes have always been the products of deliberate government policies and institutions—not replacing markets but shaping them in ways that promote



Source: Reproduced from Price, Carter C., *Measuring the Income Gap from 1975 to 2023: Extending Previous Work*, The RAND Corporation; World Inequality Database.

opportunity and provide security for the broad population. Market Humanism is about realigning markets and reimagining the economy to serve the interests of the many, not just a privileged few.

0.3. Policy Malpractice

How the Prevailing Economic Paradigm Created the Very Problems It Claimed to Solve

For decades, policy professionals have operated within an economic framework that promised prosperity through the magic of free markets.

That framework, which we call the neoliberal consensus, has dominated policy thinking since the 1970s. Its core tenets have been taught in virtually every economics department, advocated by influential think tanks, and implemented by governments around the world.

The promises neoliberals made to Americans were clear: Free the economy from government interference. Cut taxes on the wealthy. Reduce public spending. Deregulate powerful interests. Keep wages low and flexible. Open the floodgates to free trade. And through the miracle of the "invisible hand," greater prosperity and a better life would trickle down from the top to benefit everyone.

Those promises have not been kept.

After five decades of this grand experiment, the evidence is in. Far from creating broad-based prosperity, this approach has generated the greatest upward transfer of wealth in modern history. According to a 2025 study by the nonpartisan RAND Corporation, since 1975, U.S. policies have diverted approximately $79 trillion from the bottom 90 percent of Americans to the top 1 percent.[5]

While important progress has been made throughout this period in reducing racial and gender income gaps, that progress was overwhelmed in scale by the relentless upward redistribution of wealth. In fact, the RAND study finds that 99 percent of earners are worse off today than they would have been had income distributions remained constant, including female workers, male workers, workers of color, and white workers. In 2023 alone, this upward redistribution from the bottom 90 percent to the top amounted to $3.9 trillion—enough to give every worker in the bottom nine deciles a $32,000 raise.[6]

The neoliberal consensus didn't simply misallocate resources—it distorted our values, training us to see greed as a virtue and undermining the social fabric that enables cooperation and trust. It taught us to believe that inequality is efficient, that selfishness is rational, and that fairness is optional.

0.4. A Fundamental Failure

How the Neoliberal Consensus Failed to Deliver Growth

An even more profound indictment of the neoliberal consensus is that it has failed dramatically on its own core promise—accelerating economic growth. Under neoliberal policies, such as tax cuts for the wealthy, deregulation, reduced public investment, and weakened labor protections, not only has prosperity become more narrowly concentrated, but overall GDP growth rates have markedly slowed.

From the end of World War II until the mid-1970s, during an era of more regulated capitalism and robust public investment, U.S. GDP growth averaged approximately 4 percent annually. In contrast, since adopting neoliberal economic policies starting in the late 1970s and early 1980s, average GDP growth has fallen significantly, averaging roughly 2.5 percent annually and declining further in recent decades.[7] Far from unleashing entrepreneurial dynamism and broad-based prosperity, neoliberal economics has delivered economic stagnation, instability, and fragility.

This isn't just an economic failure—it's a moral failure. The neoliberal consensus didn't simply misallocate resources—it distorted our values, training us to see greed as a virtue and undermining the social fabric that

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enables cooperation and trust. It taught us to believe that inequality is efficient, that selfishness is rational, and that fairness is optional. And then it used those beliefs to justify policies that hollowed out the middle class, concentrated power, and paralyzed our ability to respond to crises. This profound failure of economic theory, ideology, and policy has consequences far beyond economics—it has corroded our democracy, fueled political polarization, and left us ineffective in the face of existential challenges like climate change and the rise of disruptive technology like artificial intelligence.

0.5. Policy Asymmetry
Why Every Raise Needs Proof but Every Bonus Gets a Pass

Perhaps the most revealing failure of the neoliberal era is not its outcomes but its logic. For fifty years, our economic discourse has operated under a profound asymmetry of scrutiny. Policies that benefit ordinary people are held to impossible evidentiary standards, while policies and practices that enrich the wealthy or corporations are accepted on faith. Every proposal to raise wages, strengthen unions, or expand social programs must prove that it will not "harm the economy." Yet record corporate profits, trillion-dollar stock buybacks, and ever-rising executive compensation require no proof at all that they are good for anyone beyond their recipients.

This double standard is not accidental—it is the natural outgrowth of an ideology that equates wealth with merit and markets with virtue. When profits rise, it is called efficiency; when wages rise, it is called inflation. When the minimum wage increases, Congress demands econometric studies to ensure no job is lost; when Wall Street hands out $40 billion in annual bonuses, no one asks whether the money might have been better spent raising pay for the workers who created the value in the first place. Over decades, this evidentiary double standard has shifted trillions of dollars upward, weakened demand, and hollowed out the middle class—all while being described as "sound economics."

A right-side-up economy would reverse the burden of proof. The question should no longer be whether higher wages, broader inclusion, or public investment can be proven harmless, but whether the practices that endlessly funnel income to the top can be proven beneficial.

The evidence is clear: Economies are wage-led, not profit-led. When workers do better, demand expands, innovation accelerates, and society as a whole grows stronger. By contrast, policies that claim growth trickles down from wealthy owners of capital have delivered inequality, stagnation, and fragility.

0.6. Moving Beyond "Zombie Economics"
The Need for an Alternative Paradigm

As a policy professional, you may have been trained to see this framework as simply "economics"—a value-neutral scientific approach to understanding how economies work. But the economic ideas that have guided policy and shaped our politics for the past half century are neither neutral nor particularly scientific. Nor are they really what "economics" is today.

Academic economics played a role in this story, largely during the 1950s through 1990s when neoclassical efficient market economic theories found common cause with neoliberal political theories about the inefficiencies of government. These ideas were promoted by figures such as Milton Friedman and other Nobel laureates at the University of Chicago and elsewhere, providing the intellectual fuel for the rise of both Reagan's and Clinton's versions of the neoliberal consensus. But economics has moved on from the 1990s and today is a vastly different field with

Market economies come in different designs and the evidence is clear: when the broad majority of people can earn, spend, save, and invest, businesses access larger customer bases, innovation yields greater returns, and the entire system becomes more dynamic, resilient, and adaptive.

much more realistic and empirically supported views of human behavior, markets, and institutions. Yet the policy and political debates raging today in Congress, government departments, think tanks, the media, and among our political leaders often seem stuck in a 1990s time warp, with conservatives on the right still arguing for "market efficiency," tax cuts, and deregulation, and progressives on the left arguing for fixing "market failures" through spending, and regulation.

We can borrow a term from Paul Krugman and call the neoliberal consensus "zombie economics"—it is a set of ideas about human behavior, market dynamics, and the nature of prosperity that has been systematically contradicted by evidence but still refuses to die.[8] Part of the reason it refuses to die is that, while there is much agreement among economists on this critique, there has been less consensus on constructing a coherent alternative and making it accessible to policymakers and the public.

This booklet offers such an alternative.

Drawing on decades of research across multiple disciplines—from economics, behavioral science, and complex systems theory to evolutionary biology and network theory—Market Humanism provides a new framework that better explains how economies actually work and therefore points the way to policies that will lead to both faster economic progress and greater shared prosperity and progress.

These ideas represent the consensus of a growing community of economists, scientists, and policy thinkers who are reimagining economics based on how humans and markets *actually* behave, not how we assumed they would.

0.7. Markets for Humans
An Attack on Neoliberalism, Not Markets

While this booklet is an attack on the neoliberal consensus and radically reframes how we think about the economy, it is expressly not an attack on markets. As we will discuss, vibrant, competitive markets are an essential source of prosperity. This analysis defends market economies while challenging the neoliberal policies that have concentrated wealth upward, hollowed out demand, and threatened capitalist democracy itself.

Market economies come in different designs, and the evidence is clear: When the broad majority of people can earn, spend, save, and invest, businesses access larger customer bases, innovation yields greater returns, and the entire system becomes more dynamic, resilient, and adaptive. This isn't ideological—it's pragmatic. Restructuring markets to increase economic inclusion is how long-run prosperity is created.

Finally, the core reality that animated the creation of this booklet is that the United States today is existentially threatened by the radical inequality that decades of the neoliberal consensus generated and sustains.

The world desperately needs an alternative to both the neoliberal paradigm of the past and the populist authoritarianism represented by Donald Trump in the present. This is essential work for both our economy and democracy.

But to be clear, this booklet is not a blueprint for defeating Trump and Trumpism at the ballot box, or a talking points memo for candidates aspiring to win in the next election. Our goal here is to map the contours of an economic framework for the post-Trump world.

0.8. What Will AI Do?
How AI Impacts the Economy Is a Choice

While we do not, in this booklet, extensively address the economic impact of artificial intelligence and other transformative technologies, we believe their rapid emergence makes confronting the weaknesses of the neoliberal consensus even more urgent. These technologies are not inherently harmful to human welfare; indeed, they hold immense potential to expand knowledge, accelerate discovery, and improve human well-being. But in an economy whose rules channel most of the gains from innovation to the owners of capital while socializing the costs onto workers and the public, such technologies will not democratize prosperity—they will further concentrate it. Absent significant policy intervention, AI and its successors will amplify the structural inequality and social fragmentation that four decades of neoliberalism have already set in motion.

History offers a clear warning. Every great technological revolution—the mechanization of the 19th century, electrification and mass production in the 20th, the digital revolution at the century's end—created vast new wealth. Yet that wealth only translated into broad prosperity when societies restructured their economic systems to distribute opportunity and power more fairly: in the case of the Industrial Revolution, through unions, progressive taxation, education, and social investment. When institutional adaptation lags, upheaval follows. The arrival of AI and other technologies poses the same test. Whether they usher in abundance or instability will depend not on the machines themselves, but on whether we build a new economic framework—one grounded in inclusion, fairness, and shared problem solving. That, in essence, is the purpose of Market Humanism.

0.9. Towards Market Humanism
Not a Tweak, a New Map

For decades, progressive policy professionals have tried to steer toward greater fairness, sustainability, and shared prosperity, using the tools and the logic of the neolibleral consensus. It hasn't worked—not because we haven't tried hard enough, but because the framework itself was never built to take us there. You can no more reach a just and thriving society with this intellectual machinery than you can drive a car to the moon.

That's why this booklet doesn't propose a tweak or a patch. It offers a new map, a new destination, and a new way to get us there. It's not a choice between capitalism and socialism—it's between a market economy that works for the few versus one that works for the many.

Economic paradigms are not judged solely in academic journals. They are judged in workplaces, households, and communities—and ultimately at the ballot box. Over time, the gap between the promises of the neoliberal consensus and the lived experience of most people has become impossible to ignore. Workers were told that flexibility would bring opportunity, even as it brought insecurity. Communities were told that offshoring and consolidation were efficient and "good for the economy", even as they lost jobs, skills, and the vitality of those very communities. Voters are told the economy is strong, even as their lives became more precarious and the opportunities for themselves and their children decline.

When economic policy consistently contradicts lived reality, citizens reasonably conclude that decision-makers either do not understand how the economy actually works—or do not care who it works for.

Market Humanism restores a basic moral and democratic principle: economic policy must be accountable to human outcomes.

PART I:

THE PROBLEM ON THE GROUND

The Economic and Human Costs of the Last 50 Years

Understanding the lived reality that any new paradigm must address

> "You do not have to be an altruist to support policies that lift the incomes of the poor and the middle class. Everybody will benefit from these policies, because they are essential to generate higher, more inclusive, and more sustainable growth."[9]
>
> —*Christine Lagarde*

1.1. The Great Divergence
When Wages and Growth Decoupled

For nearly three decades following World War II, the American economy grew at unprecedented rates and, crucially, gains were broadly shared. Worker compensation rose in lockstep with productivity, creating the largest middle class in history.

This period, often called the "Great Compression," saw a reduction in inequality and an expansion of economic opportunity.[10]

But beginning in the 1970s, something changed. Productivity continued to rise, but worker compensation stagnated. This "Great Divergence,"[11] as economists call it, resulted in trillions of dollars that would have gone to working- and middle-class families instead flowing to those at the top of the economic ladder.

The numbers are staggering. As RAND reported in 2025, the cumulative gap between what most workers earned and what they would have earned had inequality remained at 1975 levels have widened to an astounding $79 trillion—mostly due to the ever-rising share of national income captured by those in the top 1 percent.[12]

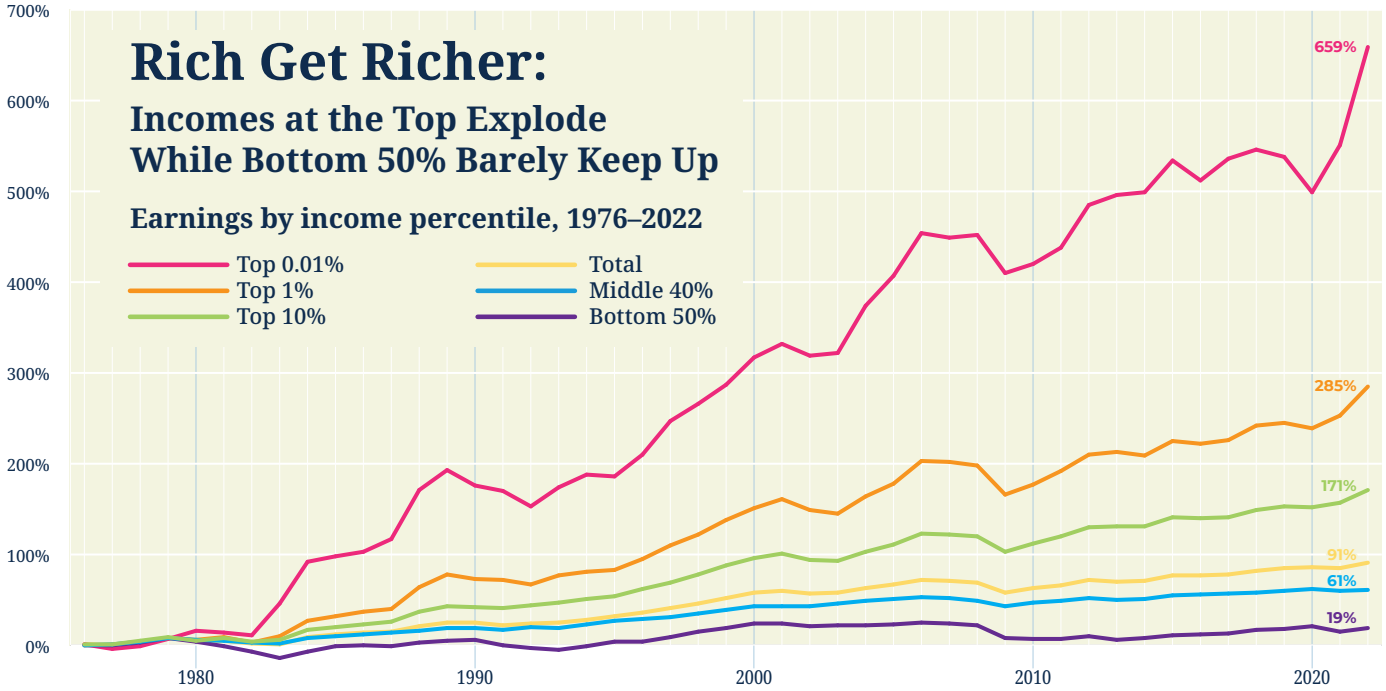
This upward redistribution means that, if not for rising inequality, median incomes would be double what they are today.[13]

This divergence between productivity and compensation wasn't inevitable, nor was it the product of abstract market forces. It resulted from specific policy choices—choices informed by an economic ideology that promised prosperity would trickle down from the top. It happened because of the rise of the neoliberal consensus.

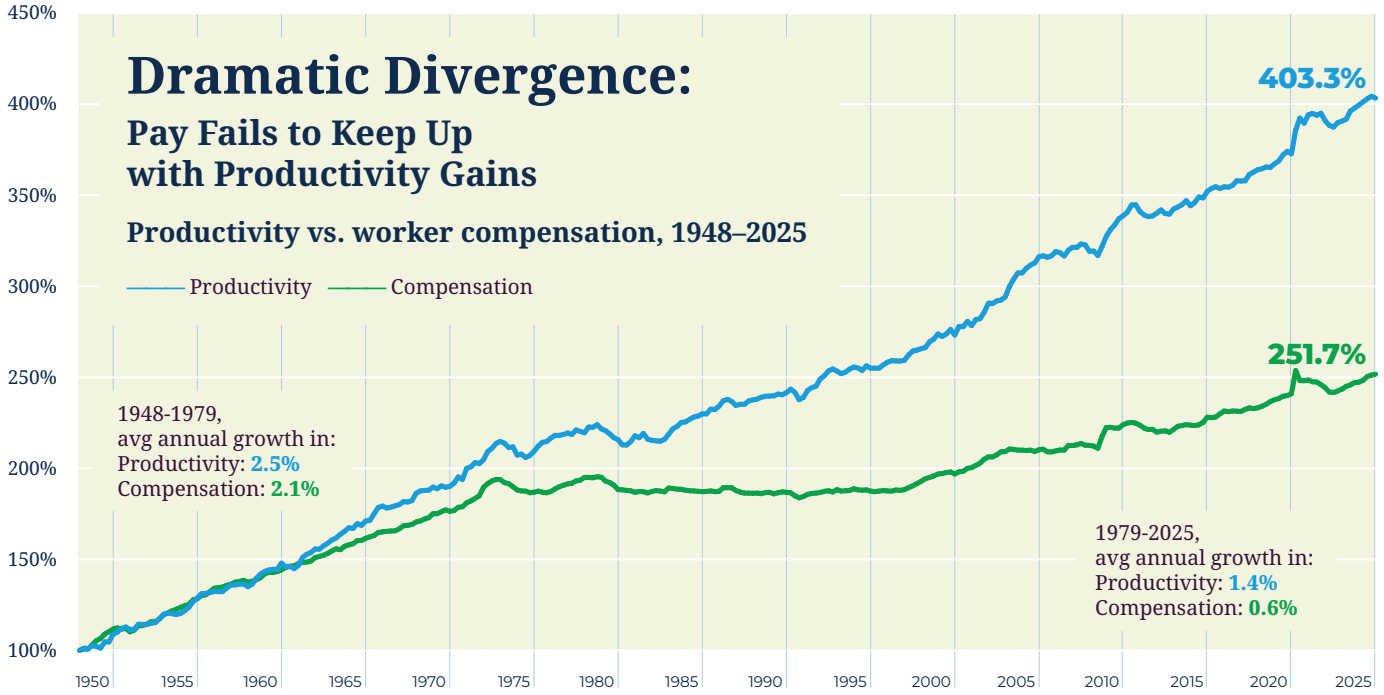
1.2. The Rise of the Neoliberal Consensus
The Ascent of the Dominant Economic Worldview

The shift toward the neoliberal consensus began in the 1970s, as the postwar economic Keynesian consensus faced challenges from stagflation and increasing global competition. Into this breach stepped a new economic orthodoxy, championed by economists like Milton Friedman and institutionalized by the administrations of Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom.

This new orthodoxy held that markets, left to their own devices, would produce optimal outcomes. Government intervention—whether through regulation,



Source: Reproduced from realtimeinequality.org, *Factor income growth per adult from Jan 1976 to Mar 2023*; Thomas Blanchet, Emmanuel Saez, Gabriel Zucman; Department of Economics; University of California, Berkeley.



Source: Reproduced from EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics (BLS) Labor Productivity & Costs program, wage data from the BLS Current Employment Statistics, BLS Employment Cost Trends, BLS Consumer Price Index, and Bureau of Economic Analysis National Income & Product Accounts. Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

taxation, or direct provision of services—was seen as inefficient at best and destructive at worst.

For example, the theory of "rational expectations" advocated by neoclassical economists such as Nobel laureate Robert Lucas in the 1970s[14] argued (without any compelling empirical evidence) that when governments take certain actions, like increasing spending through borrowing, "rational" individuals would immediately anticipate the future consequences of such policies (such as higher future taxes to pay off government debt). According to this "Lucas Critique," people would change their current economic behaviors—like spending less and saving more—to prepare for those future consequences. In theory, this behavior would neutralize or undermine the intended impact of the government's original action.

In 1975, another Nobel laureate, Thomas J. Sargent, went even further, with his "Policy Ineffectiveness Proposition,"[15] arguing that *any* monetary intervention would have no effect, and thus governments are unable to improve employment or output, directly contradicting the idea of active economic management put forward by Keynes.

The idea that government was inherently ineffective or, worse, destructive to economic interests was further promoted by James Buchanan, another Nobel laureate. In the 1960s and '70s, his influential writing argued that governments were just as self-serving as markets, but instead of the magic of the invisible hand, this self-interest produced government failure where politicians wasted taxpayer money on pork-barrel projects, and bureaucrats used regulation to expand their power and influence.[16]

Just as, or even more, consequential was a profound change in the way business operates, advocated by figures such as Milton Friedman, another Nobel laureate.

Before the 1970s, businesses generally operated on a multi-stakeholder model—they sought profits but also recognized broader responsibilities to customers, workers, and their communities. But the neoliberal consensus argued that the only objective for business should be profits for shareholders. As Friedman famously put it, "The social responsibility of business is to increase its profits."[17]

These ideas might have remained the province of obscure academic journals were it not for a network

of wealthy individuals and powerful businesses and investors who deliberately cultivated, funded, and promoted them.[18] These individuals and corporations recognized that the economic theories advanced by Friedman and his contemporaries served their material interests.

Starting in the 1970s, these actors systematically funded think tanks, academic programs, and advocacy organizations designed to propagate neoliberal ideas such as deregulation, privatization, and tax cuts for the rich.

Politicians advancing the neoliberal consensus also leveraged racial difference as part of their political project; one of the most effective ways to undermine trust in public institutions was to advance the idea that public institutions only worked to benefit other people from other groups. Ronald Reagan's infamous dog-whistle quip about "welfare queens" driving Cadillacs is a prime example.[19] Despite being utterly false, this narrative was politically effective.[20]

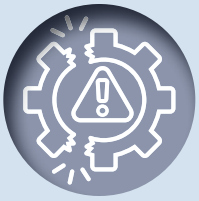
Institutions like the Heritage Foundation, Cato Institute, and Grover Norquist's Americans for Tax Reform emerged as influential platforms promoting policies that benefited the wealthiest at the expense of broader society. Media outlets from *Newsweek* to *Reader's Digest* were cultivated to bring these ideas to the public. Billionaires such as Charles and David Koch invested vast resources into a sophisticated infrastructure of political influence to popularize neoliberal economics, shaping policy debates and legislation across the United States.[21]

Neoliberal consensus ideas were also embedded in the courses taken by millions of Econ 101 students as well as students at elite business and law schools.[22] Many students during this era were also captivated by the libertarian ideas of Ayn Rand, and some of those students grew up to be Speaker of the House (Paul Ryan), Fed Chairman (Alan Greenspan), and tech billionaires (Peter Thiel, Travis Kalanick).[23]

This coordinated effort effectively reframed economic discourse, embedding neoliberal principles into mainstream politics, business, and parts of academia, thereby institutionalizing economic policies explicitly

Neoliberal Policy Consensus

Tax Cuts for the Wealthy



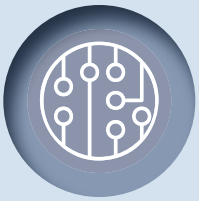
Deregulation

Privatization

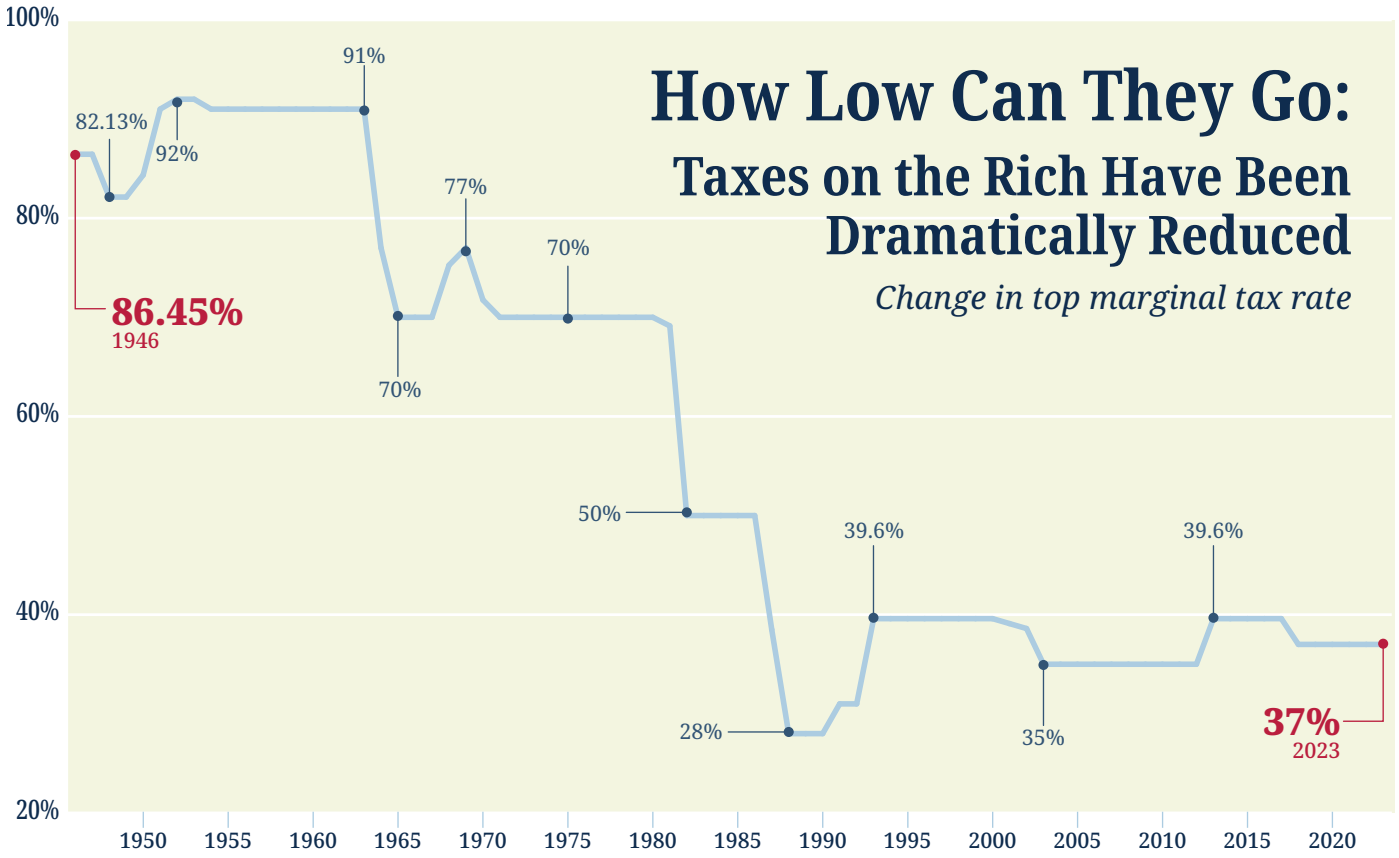
Weakening of Labor

Globalization Without Guardrails

Financialization



Technology as Unalloyed Good



Sources: Reproduced from Tax Policy Center. IRS Revenue Procedures, various years. Also, C. Eugene Steuerle, The Urban Institute; Joseph Pechman, *Federal Tax Policy*; Joint Committee on Taxation, *Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003*, JCX-54-03, May 22, 2003. Notes: This graph contains a number of simplifications and ignores a number of factors, such as the amount of income or types of income subject to the top rates and the value of standard and itemized deductions.

advantageous to corporate and elite interests. Rather than an organic shift, the neoliberal consensus's ascendancy was an orchestrated, strategic campaign aimed squarely at reshaping the economy to serve the few at the top, with the theory that the gains would eventually trickle down to the many below.

The combination of this set of economic, political, and philosophical ideas and the efforts of these funders and institutions metastasized into what we have called the neoliberal consensus—a policy agenda and narrative that advocated for:

▶ **Tax cuts for the wealthy:** Based on the theory that the rich are "job creators" who will invest their additional wealth in ways that benefit everyone.

▶ **Deregulation:** Based on the theory that markets self-regulate and government interference only creates inefficiencies.

▶ **Privatization:** Based on the theory that private enterprises are inherently more efficient than public ones.

▶ **Weakening of labor:** Based on the theory that unions and labor protections create "rigidities" in the labor market that harm growth.

▶ **Globalization without guardrails:** Based on the theory that free trade and capital mobility benefit all nations, regardless of differences in labor standards, environmental protections, or social safety nets.

▶ **Financialization:** Based on the theory that financial markets are the most efficient allocator of capital.

▶ **Technology as an unalloyed good:** Based on the theory that any new technology that increases productivity is good, even if it creates "dislocations" in labor markets and communities.

While this agenda is most closely associated with Rea-

gan and the Republican party, Democrats also pursued their own version. Jimmy Carter was arguably the first neoliberal president, privatizing and deregulating large sectors of the U.S. economy including airlines, trucking, railways, telecoms, and energy.[24] Bill Clinton continued with deregulation of financial services, major trade deals, welfare reform, and market-oriented social policies (e.g., school choice experiments, replacing welfare payments with the Earned Income Tax Credit).[25] Barack Obama's focus on bailing out the banks and their stockholders (rather than homeowners) during the 2008 crisis was also straight out of the neoliberal playbook. And despite campaign promises, Obama resisted efforts to increase worker power through raising the minimum wage or strengthening unions, presumably because he and his advisers believed such actions would harm market efficiency and growth.[26]

While there were important policy and political differences between the Republican and Democratic versions of neoliberalism, it truly was a consensus—a common framework within which these debates took place.

1.3. Broken Promises—Decades of Neoliberal Policy Failure

Real-World Damage from Flawed Ideas

The results of this cross-party consensus on economic ideology have been nothing short of disastrous. The slower growth and rising inequality discussed in the introduction represent just the beginning of the neoliberal consensus's failures.

Advocates promised that higher corporate profits, driven by lower taxes and deregulation, would spur increased corporate investment, thereby fueling economic expansion and innovation. However, the empirical record tells a starkly different story.

Rather than investing in productive activities, corporations have increasingly directed their elevated profits toward stock buybacks, dividends, and executive compensation.[27]

KEY FACT

From 2009 to 2018, S&P 500 companies spent approximately $4.3 trillion on stock buybacks—equivalent to 52 percent of their net income, significantly outpacing capital expenditures.[28] Since stock buybacks were legalized in the early 1980s, corporate investment as a share of GDP declined from 13 percent to less than 10 percent by the late 2010s. Trillions of dollars that used to be dedicated to research & development, customer service improvements, and higher wages were instead devoted to repurchasing shares in order to push stock prices higher, reflecting a shift away from productive, long-term value creation toward short-term financial extraction.[29]

While the boom in stock buybacks benefited wealthy shareholders and senior executives, it did nothing for working families. Though some workers do own small amounts of stock, stock ownership is extremely concentrated; the Federal Reserve estimates that today, 90 percent of stock market wealth is owned by the wealthiest 10 percent, while the bottom 50 percent own only about 1 percent.[30]

Moreover, neoliberal policies did not deliver the broadly shared innovation and dynamism they promised. Instead, business formation rates—a key indicator of economic vitality—have declined significantly, dropping approximately 44 percent between 1978 and 2012.[31] This reduction in entrepreneurial activity undermines job creation, innovation, and resilience in the economy, leaving markets dominated by entrenched incumbents with limited incentives for genuine innovation.[32]

The innovations of Silicon Valley and high-profile companies such as Apple, Meta, and Google have produced the appearance of a dynamic, entrepreneurial American economy. But that success is remarkably shallow. Silicon Valley itself employs only about 700,000 workers, or 0.4 percent of the U.S. labor force, and the broader national tech sector employs only about 9.6 million workers, or 5–6 percent.[33]

The neoliberal consensus's promises of trickle-down prosperity, robust corporate investment, vibrant entrepreneurship, economic stability, and societal well-being were profoundly broken. Instead, it delivered trickle-up wealth concentration, weakened innovation, greater monopoly power, pervasive instability, and neglect of public goods—a record of comprehensive failure.

Instead of looking at a few high-profile companies, it is more revealing to look at the Information Technology & Innovation Foundation's (ITIF) Hamilton Index, which compiles data on U.S. competitiveness across 10 strategic sectors, from IT and computers to pharmaceuticals and motor vehicles.[34] Unfortunately, since the mid-1990s, the U.S. has steadily been losing ground across these critical sectors to competitors in Europe and Asia, most notably to China. In 2020, the U.S. ranked 19th in overall competitiveness, behind Italy and Mexico and just ahead of Poland.

The neoliberal consensus also exacerbated systemic instabilities in the economy, culminating most dramatically in the 2008 global financial crisis. Deregulation of financial markets, hailed as a path to efficiency, instead unleashed speculative excess and reckless risk-taking, ultimately requiring massive public bailouts estimated at $444 billion through the Troubled Asset Relief Program (TARP), alongside trillions more in Federal Reserve interventions.[35] This instability not only wiped out approximately $19 trillion in household wealth but also severely eroded public trust in economic institutions and governance.[36]

Finally, neoliberal consensus policies failed profoundly in addressing essential human needs and environmental sustainability. Public infrastructure and social services suffered chronic underinvestment, with the American Society of Civil Engineers estimating a $2.6 trillion infrastructure funding gap by 2029, and environmental degradation accelerated as deregulation favored short-term profits over long-term planetary health.[37,38] The evidence is now in: Almost none of the promises made by the neoliberal consensus were met. Instead, decades of these policies left America weaker, less dynamic, less competitive, and more divided:

- **Trickle-down tax cuts didn't work:** The top marginal tax rate fell from over 90 percent in the immediate post-war period to 37 percent today (and effectively much lower for many of the wealthiest Americans).[39] While we would not advocate a return to 90 percent rates, the record is clear that tax cuts for the wealthy did not lead to increased investment, faster growth, or broadly shared prosperity. Studies consistently show that tax cuts for the rich primarily benefited the rich, with little positive impact on overall economic performance.[40]

- **Trickle-down labor market "reforms" didn't work either:** The theory claimed that freeing labor markets from the dead hand of unions and government would make them more efficient, increasing productivity and growth, which would then trickle down into everyone's pockets. Anti-union policies and changes in the economy caused union membership to decline from its peak of around 30 percent of the workforce in the 1950s to less than 10 percent today.[41] Neoliberal opposition to the minimum wage caused it to peak in 1968, and (adjusted for inflation) it has lost about 41 percent of its value since then.[42] Instead of trickle-down gains, policies such as these contributed to decades of wage stagnation across 90 percent of the population, while the top 1 percent ran away with almost all of the gains of growth. Meanwhile, countries with stronger labor protections and higher unionization rates often outperformed those with "flexible" labor markets.[43] Contrary to orthodox predictions, nations and U.S. states that raised minimum wages did not cause significant job losses.[44]

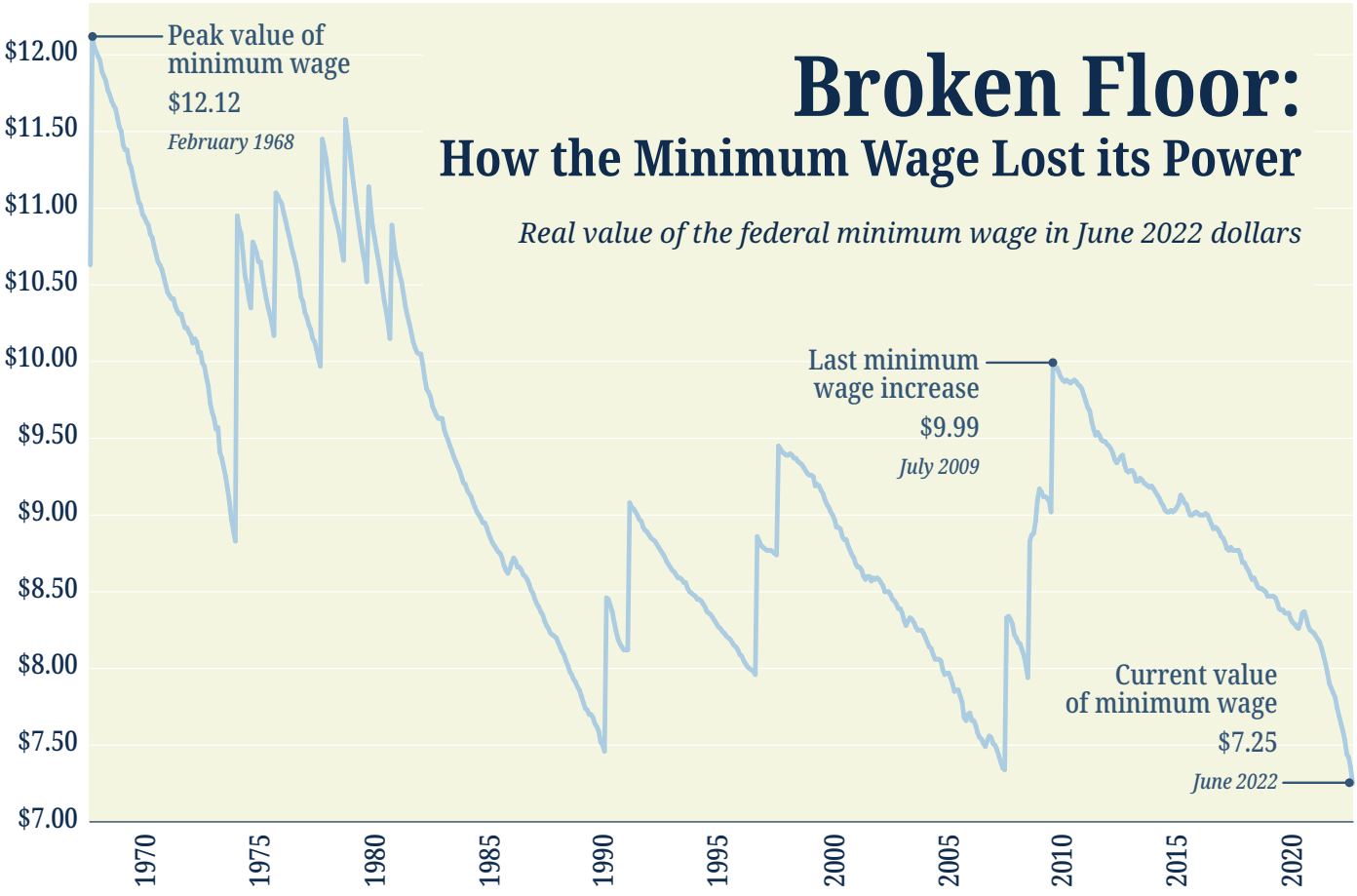
▶ **Deregulation didn't increase efficiency:** Financial deregulation led to increasingly frequent and severe crises. Antitrust rollbacks led to consolidated industries—lowering wages, increasing prices, and decreasing consumer choice and innovation.[45]

▶ **Privatization didn't improve services, and cutting public investment didn't boost private investment:** In many cases, privatizing public services led to higher costs, reduced access, and poorer quality. The U.S. healthcare system—the most privatized among developed nations—has the highest costs and worst outcomes.[46] And decades of disinvestment in public infrastructure and capabilities have left America's balance sheet in a highly weakened state—from crumbling roads and bridges to schoolchildren who can barely read and a once-dominant scientific base that has been steadily losing ground to competitors, notably China.

▶ **Unfettered globalization didn't benefit everyone:** While globalization created wealth in aggregate, many communities experienced severe economic dislocation without adequate support.[47]

▶ **Carbon pricing did not on its own reduce carbon:**[48] For both economic and political reasons, real-world implementation of carbon pricing, the neoliberal answer to climate change, has failed to reduce carbon emissions in any significant amounts.

In short, the neoliberal consensus's promises of trickle-down prosperity, robust corporate investment, vibrant entrepreneurship, economic stability, and societal well-being were profoundly broken. Instead, it delivered trickle-up wealth concentration, weakened innovation, greater monopoly power, pervasive instability, and neglect of public goods—a record of comprehensive failure.



Sources: Reproduced from The Economic Policy Institute. Fair Labor Standards Act and amendments. Note: All values in June 2022 dollars, adjusted using the CPI-U in 2022 chained to the CPI-U-RS (1978–2021) and CPI-U-X1 (1967–1977) and CPI-U (1966 and before).

1.4. It Wasn't Inevitable, It Was a Choice

Why the Usual Suspects of Globalization and Technology Don't Fully Explain the Outcomes of the Past Decades

An often-used excuse for these outcomes is that the massive shifts in the allocation of income and wealth were simply the inevitable result of globalization and advancements in technology. According to this theory, American workers were not globally competitive enough or prepared for the changes in the technology landscape, so the stagnation of working- and middle-class wages and stratospheric gains at the top were once again just the workings of an "efficient" market.[49]

But there are two problems with this story. The first is timing. The trends we have discussed all started in the mid-1970s to early 1980s. Shifts in globalization and technology have had big impacts, but they mostly are a mid-1990s-and-onward story.

Through the 1970s and 1980s, international trade's share of world GDP sat at around 35 percent; it was only in the mid-1990s that it moved up to 50 percent. The foreign share of the U.S. auto market was 25 percent and below in the 1970s and 1980s, and it took until the 2000s for that share to rise to half.[50] NAFTA wasn't until 1994. China's entry into the WTO was in 2001.

This is not to deny that globalization has had a significant impact on American workers—it certainly has, particularly for those in manufacturing.[51] The massive shift in the distribution of national income started 15 years before the globalization wave in the mid-1970s, and it impacted workers across the entire economy, not just those in manufacturing.

The promise of the American dream—that if you work hard and play by the rules, your life and the lives of those you care about will get better over time—became less and less true for more and more people.

Likewise, the rise of Big Tech is also a 1990s-onward story. Personal computers were still relatively new in the 1980s. The real tipping point didn't occur until the 1990s; by 1999, about half (42 percent) of American workers used a computer in their job.[52] And broadband, mobile phones, e-commerce, and social media are 2000s-onward stories.

Similarly, the U.S. factory automation wave didn't really take off until the 1990s, with innovations in digital controls, robotics, and lean manufacturing which then had significant impacts from the 2000s onward. From 2000 to 2010, U.S. manufacturing output held steady while jobs fell by 30 percent.[53]

In addition to the fact that the timing doesn't match, the other piece of evidence against the "unstoppable globalization and technology" explanation is the fact that every other industrialized country faced the same globalization and technology trends but had very different distributional outcomes from the United States. For example, from 1975 to 2023, the share of pre-tax national income for the top 10 percent of earners captured in the U.S. grew substantially from 34 percent to 46 percent.[54] In the same period, France's top 10 percent share went from 33 percent in 1975 to 34 percent in 2023—essentially flat. Countries such as the UK, Canada, Germany, and Australia saw modest increases in their top 10 percent shares, but none came close to U.S. levels.

The U.S. was truly world-beating in the share that its top 1 percent captured, doubling from 10 percent to 21 percent from 1975 to 2023. No other developed nation's plutocracy captured as much of their respective economies. This is truly American exceptionalism.

The fact that the decoupling of wages and productivity started well before the forces of change in globalization and technology took hold shows that something else happened earlier—something starting in the 1970s and '80s. And that something was the rise of neoliberal ideology and policies.

When the waves of globalization and technology change did eventually hit, the U.S. handled them differently than other countries. Neoliberal free-market

1965

- he works a union manufacturing job
- they can afford a comfortable life on a single income
- they own their own home
- they have health benefits
- they own a new car and can afford annual vacations
- they can afford college for their kids
- they have time to volunteer in their community
- they can afford retirement and will have a pension

2025

- he works a non-union job, drives Uber at night
- she works retail full-time
- they rent a small apartment
- childcare costs a big drain
- healthcare costs a major worry
- their used car is old and no vacations since the kids were born
- kids will need large loans for college
- no time outside work for kids and the community
- no savings, no pension, retirement just a dream

A deliberate shift in policy, grounded in a specific economic theory, resulted in a $79 trillion transfer of wealth from the paychecks of working Americans to the wealthiest few. This changed the structure of the American economy—and with it, the lives of hundreds of millions of families.

policies and the "shareholder max" theory of corporate governance meant that workers in the U.S. had very few protections, entire regions saw century-old industries disappear, and the gains from globalization and technology flowed mainly into the pockets of shareholders and the stock options of senior executives.[55] Other countries faced these same challenges, but with different ideologies and policies, they made different choices and had very different results.

1.5. The Human Cost

Economic Failure Measured in the Lives of Typical Families

As a thought experiment, imagine a typical middle-class American family back in 1965. There were plenty of downsides to the economic arrangements of the time. There were pockets of severe poverty, racial segregation was normalized, and there were strict limitations on the opportunities of women. However, the income distribution was dramatically different than it is now.

For that typical (mainly white) middle-class American family, the father works a unionized manufacturing job. The mother stays home or works part-time, if she chooses.

They own a modest home. They can afford a car, family vacations, and the occasional meal out, and they have a pension and savings for their retirement. Their children attend public school, go to college without crushing debt, and expect to live better than their parents.

Now imagine a middle-class American family in 2025. Both parents work full-time, and sometimes more. They struggle to afford childcare, health insurance, housing, and higher education, and they have little or no retirement savings. Vacations are rare. They're one emergency away from bankruptcy, and they worry their kids will move backward, not forward.

While macro statistics on growth, inequality, and wages tell one part of the story, the human cost of the neoliberal consensus has been profound:

▶ **Financial insecurity:** A recent survey found that 42 percent of younger working Americans have no money left over after paying basic living expenses each month, up from 31 percent in 1997.[56]

▶ **Declining social mobility:** Children born in the 1980s have only a 50 percent chance of earning more than their parents, down from 90 percent for children born in the 1940s.[57]

▶ **Deteriorating health:** Life expectancy in the United States has declined in recent years, with "deaths of despair" (suicide, drug overdose, and alcohol-related liver disease) rising particularly among those without college degrees.[58]

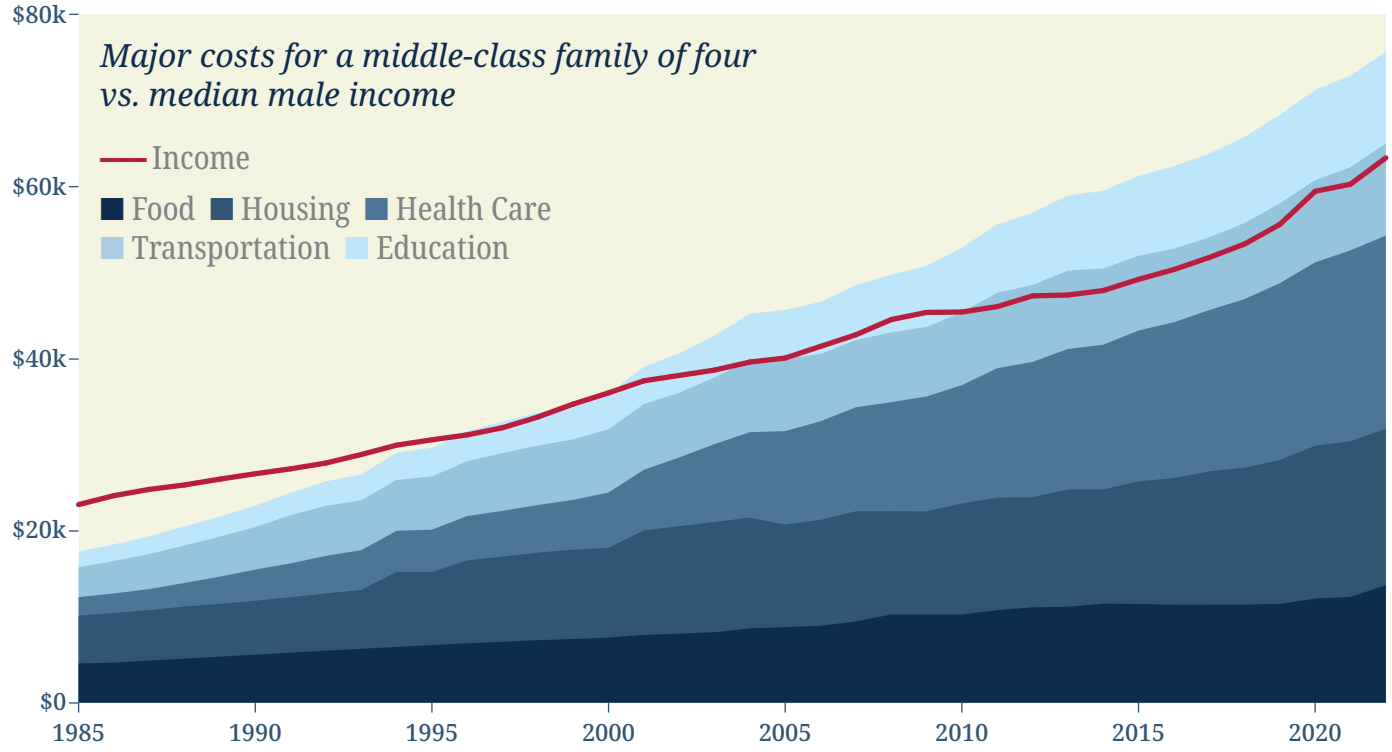
▶ **Housing unaffordability:** The cost of housing has risen far faster than incomes.[59] Half of American renters and homeowners are cost-burdened by housing, spending more than 30 percent of their income on a place to live. Homeownership—traditionally the primary wealth-building vehicle for the middle class—is increasingly out of reach.

▶ **Rising debt:** Americans now carry over $18.4 trillion in household debt, with student loans, auto debt, and credit-card debt all reaching record levels.[60]

The growing economic pressures faced by American families under neoliberal policies are starkly illustrated by the think tank American Compass's Cost-of-Thriving Index (COTI). Unlike traditional inflation metrics, the COTI measures the number of weeks a median worker must labor annually to afford essential middle-class necessities like food, housing, health care, transportation, and higher education. The index reveals a dramatic erosion of economic security: In 1985, these essentials of middle-class life required 39.7 weeks of work, leaving ample room for savings and discretionary spending. By 2022, the same basket demanded 62.1 weeks of labor—exceeding the total weeks in a year and making a middle-class lifestyle unattainable on a single income.[61]

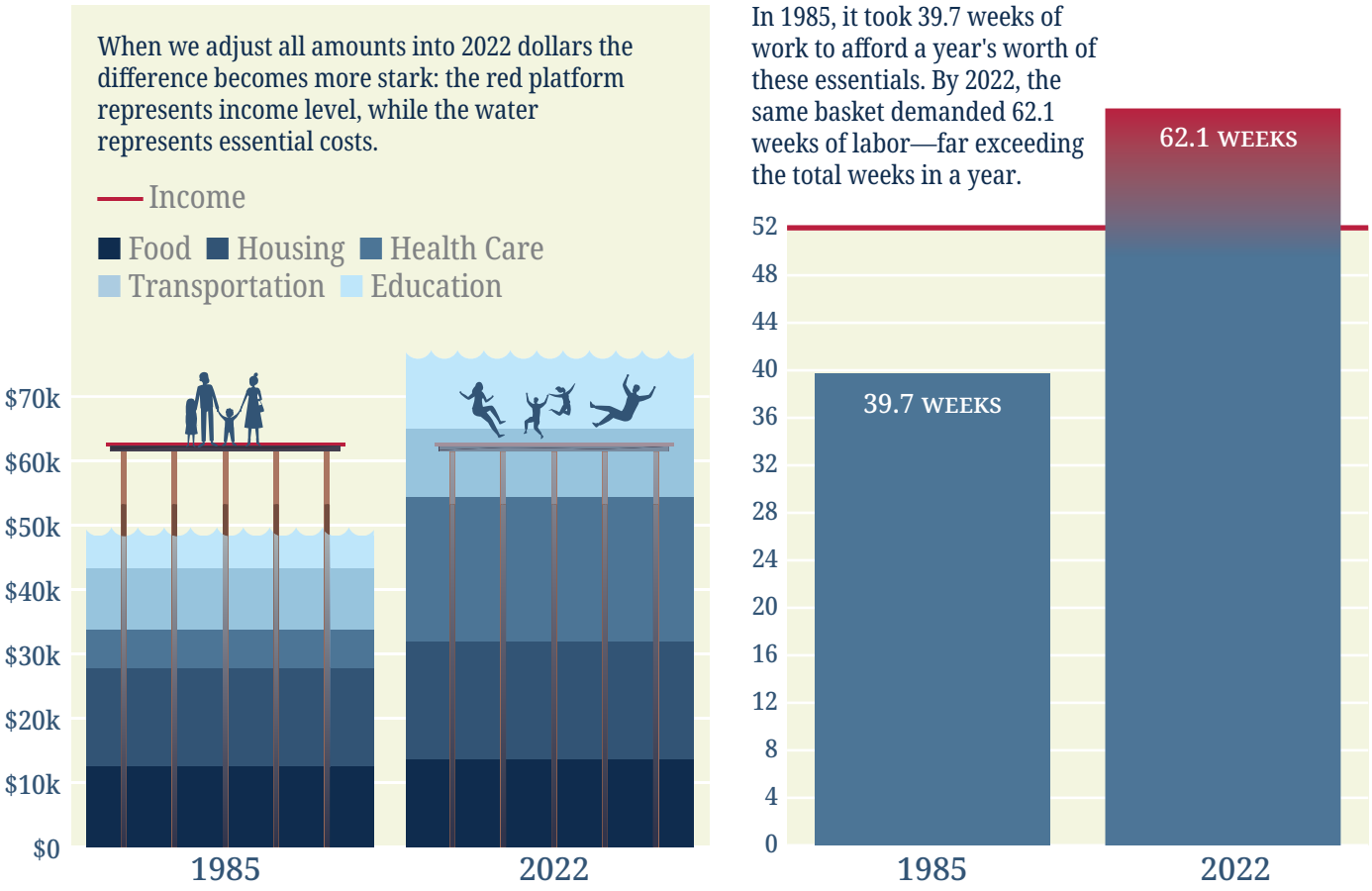
These trends are not merely unfortunate side effects of an otherwise functioning economic system. They are the predictable consequences of an economy designed to prioritize capital over labor, shareholders over stakeholders, and short-term profits over long-term sustainability and social cohesion.

Out of Reach: Costs Have Outpaced Incomes for Middle-Class Families



Source: Reproduced from American Compass Cost-of-Thriving Index (COTI), 2023. All figures in nominal dollars.

Out of Reach: Costs Have Outpaced Incomes for Middle-Class Families



Source: American Compass Cost-of-Thriving Index (COTI), 2023. Prices adjusted to 2022 dollars using Bureau of Labor Statistics's inflation calculator. https://www.bls.gov/data/inflation_calculator.htm

1.6. The Political Consequences
Polarization, Populism, and the Erosion of Trust

The economic changes of the past five decades have not occurred in a vacuum. As inequality has grown, so too has political polarization. This is not coincidental.

Research by political scientists and political economists has consistently shown that extreme economic inequality undermines democracy.[62] When wealth concentrates at the top, so does political power. The preferences of economic elites and organized business interests significantly shape policy outcomes, while the preferences of average citizens have little impact.[63]

This dynamic has fueled a cycle of disillusionment and distrust. As government becomes less responsive to ordinary citizens, people lose faith in democratic institutions. This creates fertile ground for populist movements on both the left and right—movements that promise to restore power to "the people" against corrupt elites.

The neoliberal consensus broke the social contract between people and their economy. The promise of the American dream—that if you work hard and play by the rules, your life and the lives of those you care about will get better over time—became less and less true for more and more people. A 2025 Wall Street Journal/NORC poll found 70 percent of people now believe the American Dream no longer holds true or never did.[64]

Not surprisingly, belief by Americans that their economy is fair has also been declining steadily in the neoliberal era. A 2023 Pew Research Center poll found that only 23 percent believed the economic system "is generally fair to most Americans."[65]

Work by behavioral economists and experimental psychologists shows that when people believe fairness is violated, they react in specific and predictable ways:[66]

First, they want to identify who the violators are. Populists on the right, such as Trump, have pinned the blame on immigrants, foreign countries, and liberal elites—distracting from the real culprit, the neoliberal consensus and its corporate and plutocratic backers. Second, people want to punish the violators, even if it comes at a cost to themselves. This helps explain why fact-based arguments that policies such as Brexit or punitive tariffs will make people worse off often fall on deaf ears. And third, people who feel violated want to team up with people like themselves to fight back against the perceived violators. This helps explain the fusion of economic populism with identity politics.[67]

This "psychology of broken contracts" creates fertile ground for the angry grievance politics of authoritarian populists. In the United States, we've seen this play out through increasingly bitter partisan divides that extend beyond policy disagreements to fundamental questions about national identity, values, and democracy itself.

Political scientist Robert Putnam has found that levels of political polarization in America have reached heights not seen since the Civil War.[68]

The economic grievances felt by Trump voters are real—the promise of the American Dream *has* been broken. And Trump is also right when he says it was broken by elites of both political parties—elites that bought into a flawed ideology that served their interests. But instead of offering something new and better, Trump has doubled down on neoliberalism's worst policies—tax cuts for the rich, deregulation for the powerful, and gutting support for the vulnerable. And he's added his own dose of chaos with his trade policies, corruption, and politicized interventions in the economy.

The only way to heal our divisions and ultimately save our democracy is to recognize the very real problems decades of neoliberalism created, open up to new ideas, and rebuild the American Dream.

PART II:

THE FAILURE OF THE NEOLIBERAL CONSENSUS

How Orthodoxy Went Wrong

Tracing the intellectual and institutional roots of systemic failure

> "Economists suffer from a deep psychological disorder that I call 'physics envy.'. We wish that 99 percent of economic behavior could be captured by three simple laws of nature. In fact, economists have 99 laws that capture 3 percent of behavior."[69]
>
> —*Andrew Lo*

2.1. The Shaky Intellectual Foundations of the Neoliberal Consensus

The Failed Theories Behind the Failed Policies

The reason why the policies of the neoliberal consensus failed to deliver what they promised is that the ideas that underpin them were fundamentally flawed.

As we have noted, the neoliberal consensus is an ideology that drew its ideas from multiple intellectual wells, most notably neoliberal theories of political economy (e.g., Friedrich Hayek, James Buchanan), libertarian political philosophy (e.g., Robert Nozick, Ayn Rand), and neoclassical economic theory (e.g., Milton Friedman, Thomas J. Sargent, Robert Lucas).

The latter has arguably been the most influential for three reasons. First, neoclassical ideas dominated academic economics for much of the twentieth century, up into the 1990s. This gave it the backing and prestige of top university departments and Nobel Prizes. Second, neoclassical theories were turned into mathematical models. These models not only gave the ideas a greater veneer of scientific credibility, but they were also embraced by policymakers in finance ministries, central banks, budget offices, regulatory agencies, legislatures, and international organizations. Third, and finally, while neoliberal political ideas were strongly associated with the political right, neoclassical economics was viewed as more scientific and politically neutral, and thus also embraced by many on the center-left. While some prominent neoclassical figures such as Milton Friedman and his University of Chicago colleagues were heroes to the right, other neoclassical economists such as Paul Samuelson, Kenneth Arrow, and James Tobin were viewed as sympathetic to progressive causes.

These factors combined to mean that in the post-Keynesian era, from the 1970s into 2010s, policy debates on both the right and left over issues ranging from tax cuts and the minimum wage to health care and climate change often played out in terms heavily shaped by neoclassical economic ideas.

The influence of neoclassical economics in academia peaked between the 1970s and 1990s, and economics is a very different field today than it was during this era. It would be hard to find a leading economist today who would defend neoclassical ideas of perfect rationality or notions of perfectly efficient markets.

Yet, as we've described, these outdated ideas have become so embedded in our politics, institutions, business culture, and media that they live on, zombie-like. So, it is worth briefly reviewing the assumptions behind the textbook theories, and why economists have increasingly turned away from them in favor of the real world.

2.2. Textbook Fantasies

How We Confused Mathematical Convenience with Reality

The purported explanatory power of neoclassical economics stemmed from its use of elegant mathematical models that promised clarity in an otherwise complex and uncertain world.

The influence of neoclassical economics in academia peaked between the 1970s and 1990s, and economics is a very different field today than it was during this era. It would be hard to find a leading economist today who would defend neoclassical ideas of perfect rationality or notions of perfectly efficient markets. Yet these outdated ideas have become so embedded in our politics, institutions, business culture, and media that they live on, zombie-like.

But in order to be solvable, these models required assumptions that have little to do with economic reality. For example:

Homo Economicus

Humans are rational, self-interested utility maximizers with perfect information.

Reality: *Real humans are not purely self-interested but are also "prosocial" (i.e., they act for the benefit of others). Human decision-making is profoundly influenced by emotions, cognitive biases, social norms, and limited information and thus deviates significantly from models of rational self-interest.*

Equilibrium

Markets naturally tend toward a stable equilibrium.

Reality: *Real economies are disequilibrium systems exhibiting growth, cycles, instabilities, and crises. Markets periodically fail to self-correct due to feedback dynamics and collective behaviors.*

Efficiency and Pareto Optimality

Free markets allocate resources efficiently.

Reality: *Real-world markets often have numerous inefficiencies and misallocate resources for a variety of reasons (e.g., information asymmetries, institutional frictions, market power, incomplete contracts).*

Exogenous Technological Change

Innovation occurs independently of economic processes.

Reality: *Innovation is an endogenous process deeply influenced by economic structures, policies, and human cooperation. Economic incentives, market demand, and institutional frameworks significantly shape technological advancements.*

Price Equals Value

Value is directly reflected by market price.

Reality: *Prices often fail to reflect power differentials or true social or environmental costs.*

Pareto optimal

Pa·re·to op·ti·mal

adjective

1. A Pareto optimal (or Pareto efficient) outcome is one in which no individual or group can be made better off without making at least one other individual worse off.
2. Mathematical theorems show that, in a perfectly competitive market under ideal conditions, the equilibrium outcome will be Pareto optimal, and the market is thus said to be "efficient."

Why it is problematic:

- *In the real world, perfect competition and ideal conditions rarely occur, and so real-world markets are rarely Pareto efficient.*
- *Pareto optimality says nothing about fairness or equity—only about theoretical efficiency. A very unequal situation (e.g., one person gets everything) can still be "efficient" if you can't make anyone better off without reducing welfare for someone else.*

Economic rents (excess profits) can inflate market prices without corresponding social benefits, distorting perceptions of genuine value and true prosperity.

No Power Dynamics

Markets have symmetrical information and parties have equal bargaining power.

Reality: *Markets are significantly shaped by asymmetric power relations, informational imbalances, and structural inequalities. These dynamics can profoundly influence outcomes, leading to rent extraction, exploitation, and systemic inequalities.*

Nobel laureate Paul Romer has called them "post-real models" because of their detachment from the real world. By making unrealistic assumptions, neoclassically based economic models have not just failed in prediction—they have misled policymakers into adopting policies that have exacerbated inequality, stifled innovation, and corroded social trust.

Transaction Costs Can Be Ignored

Assumes that economic models can be simplified to omit transaction costs in order to focus on fundamental principles like supply and demand.

Reality: *Transaction costs can be both costly and asymmetric—for example, it can be far more costly in time, effort, stress, and money for a tenant to move to a new home than for a landlord to find a new tenant. Models that ignore these asymmetries ignore the power dynamics that drive prices, behavior, and outcomes.*

Risks and Uncertainties Are Knowable and Stable

Assumes the distribution of risks and uncertainties are stationary over time, and thus, the past is a reliable guide to the future.

Reality: *In the real economy, structural changes in institutions, technologies, preferences, and policies significantly change the future distribution of risk and create "Knightian uncertainty" (unknown unknowns), causing theories of rational actors and market efficiency to fail.*

These assumptions were made not because they described how the economic world actually works, but because they were necessary to make the math of the models solvable. As these neoclassical models became more abstract and elegant, they also became more detached from economic reality.

The influential economist Milton Friedman defended this detachment, arguing that "the relevant question to ask about the 'assumptions' of a theory is not whether they are descriptively 'realistic,' for they never are, but whether they are sufficiently good approximations for the purpose in hand."[70]

In other words, it didn't matter if the assumptions were wrong, as long as the models made accurate predictions. Friedman's defense, however, fails two tests. First, it is possible to make accurate predictions with explanations that are scientifically invalid (e.g., one can accurately predict the sun will rise tomorrow if one assumes it is pulled by the god Apollo and his golden chariot). And second, the neoclassical models didn't actually make accurate predictions.

For example, standard neoclassical labor models predict that an increase in the minimum wage will inevitably cause job losses—a finding consistently contradicted by empirical evidence.[71] Or in 2006, economists at the U.S. Federal Reserve Board used their big macro model to test what would happen if home prices dropped by 20 percent.[72] The answer that came back was "not much"—and that answer was disproven two years later when a smaller price drop triggered a global financial collapse. Neoclassically based models have also had big misses on climate change and clean energy costs and have had little to say about economic inequality.[73]

Nobel laureate Paul Romer has called them "post-real models" because of their detachment from the real world.[74] By making unrealistic assumptions, neoclassically based economic models have not just failed in prediction—they have misled policymakers into adopting policies that have exacerbated inequality, stifled innovation, and corroded social trust.[75]

Recognizing this track record of model failure, economists have begun to address these problems, embracing instead models rooted in empirical reality and

genuine human behavior.[76] For example, creating labor models that include bargaining power and macroeconomic models that include a financial system.[77] But despite these efforts, many of the policy models still in use today by treasuries, regulators, central banks, budget offices, environmental agencies, legislatures, and many other parts of government remain built on these unrealistic and disproven foundations.[78] This has given a veneer of scientific legitimacy to policy prescriptions that have repeatedly failed over the past decades. The question is: Why?

2.2. The Triumph of Bad Ideas
Why Flawed Concepts Persisted

Despite these failures, neoclassical economics and its political cousin, the neoliberal consensus, achieved near-hegemonic status in policy and public discourse. How did ideas so at odds with empirical reality become so dominant? Part of the answer lies in the political utility of these ideas.

But the triumph of these ideas wasn't solely due to elite manipulation. Neoclassical economics also offered an appealing simplicity, reducing the messy complexity of economic life into elegant mathematical models and political narratives that promised a better world. And to be fair, these ideas were credited in the 1980s with increasing economic growth and ending stagflation during the Reagan years (although the evidence for these claims is murky).[79]

Moreover, the alternatives at the time seemed discredited. The collapse of Soviet communism was taken as proof that centrally planned economies didn't work (a valid observation), which was then extrapolated to mean that any form of government intervention in markets was suspect (a much more dubious conclusion).

The result was what journalist Thomas Frank has called "market populism"[80]—the idea that markets are not just efficient but inherently democratic, reflecting the aggregate preferences of millions of individual consumers making free choices. This framing made the neoliberal consensus seem not just economically sound but morally righteous—an economic system that was free and democratic.

2.3. The Appeal of Good Stories
How Neoliberal Ideas Became Woven into Popular Culture

The multi-decade hold of the neoliberal consensus cannot be explained just by its veneer of scientific credibility or self-interested elites; we must also admit its appeal to the general public, particularly from the 1970s until the 2008 crisis.

The proponents of neoliberalism weren't just nerdy academics and policy wonks; they were also good storytellers. Over time, a narrative emerged that promised that if we unshackled the economy from the dead hand of government, the invisible hand of the market would take over, driving investment, entrepreneurship, and innovation, creating wealth and opportunity for all. The optimism of this narrative stood in stark contrast to the gloominess of the 1970s with its crushing inflation, high unemployment, and labor strife. As a Ronald Reagan campaign ad famously proclaimed, "It's morning in America again."[81]

This narrative of optimism and opportunity was also twinned with a narrative built on a cherished American value: freedom. As Milton Friedman put it, "Underlying most arguments against the free market is a lack of belief in freedom itself."[82] By cutting taxes, reducing spending, and deregulating, we would free people from control by "big government" enabling them to pursue their own hopes and dreams in a free economy. As Bill Clinton declared in 1996, "The era of big government is over."[83]

And neoliberals put the idea of freedom in opposition to ideas about equality, postulating that actions to increase equality inevitably reduce individual freedom, while free markets themselves will create just outcomes. As Friedman claimed, "A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both."[84]

This narrative of freedom from constraint was also paired with another cherished American value: meritocracy. The neoliberal vision described an economy where hard work, skill, and thrift were rewarded. Where poverty was a result of indolence or bad incen-

tives (notably from an over-coddling welfare state), but anyone with ambition and grit could find opportunity and pull themselves up by their bootstraps.

And finally, the neoliberal narrative gave permission for people to embrace some of their baser impulses—greed and self-interest were good for the economy and therefore good for society!

The proponents of the neoliberal consensus not only had compelling stories to sell, but the channels to sell them through: From *Reader's Digest* putting a condensed version of Hayek's *Road to Serfdom*[85] on millions of kitchen tables and Milton Friedman's popular *Newsweek* columns and regular TV appearances to the 10 million sold copies of Ayn Rand's novel *Atlas Shrugged*[86] and the speeches of politicians from Reagan and Thatcher to Clinton and Blair.

But perhaps the most influential channel was Econ 101—the millions of students taking economics classes during this period who would later grow up to be politicians, business leaders, financiers, tech entrepreneurs, lawyers, judges, media pundits, and just plain members of the voting public. In the U.S., about 60 percent of high school graduates have had at least one economics course, and between 20 and 25 percent of college students have.[87] From the 1980s until very recently, standard introductory economics textbooks were very neoclassical in their orientation and promoted policy messages generally in line with the neoliberal consensus.[88] An entire generation of future leaders was raised in their formative years on these flawed ideas.

PART III:

A NEW APPROACH

Laying the Groundwork for a Paradigm Shift

Where the old framework breaks, and the path toward something better begins

> "The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds."[89]
>
> —*John Maynard Keynes*

3.1. The Need for a New Paradigm
Politics Abhors a Vacuum

The collapse of the neoliberal consensus has created a "paradigm vacuum." While the cracks in orthodox economics became impossible to ignore in the wake of the 2008 crisis, neither progressives nor conservatives knew what to offer other than the same old failed ideas, and the public wasn't buying it.

Into that vacuum stepped Donald Trump with his populist economic message of villains to blame (foreign countries, immigrants, government bureaucrats) and promises of easy fixes (tariffs, closed borders, fire government workers). In office, he has politicized and corrupted economic policy with rewards for supporters and punishments for his enemies.

If we are to have an alternative to Trump's chaotic and corrupt populism—an alternative that fixes the very real problems left by neoliberalism and truly addresses the enormous challenges we face—then we need a new economic paradigm.

In this chapter, we will introduce a new, emerging economic paradigm that we call *Market Humanism*. It is our synthesis of the work done over decades by a global, interdisciplinary community of scholars and practitioners. Market Humanism is rooted in widely shared values, based on empirical, twenty-first-century scientific foundations, and it points us in new directions to address our most critical economic challenges.

3.2. The Nature of Economic Paradigms
More than a Theory or a Model

Science historian Thomas Kuhn coined the term *paradigm* in his classic *The Structure of Scientific Revolutions*.[90] He showed that knowledge does not advance by the piling up of facts but through occasional revolutions in which one worldview is displaced by another. A paradigm, in Kuhn's sense, is not just a theory but an integrated way of seeing the world—a framework. When the reigning paradigm is contradicted by evidence and can no longer explain reality or solve pressing problems, it loses authority and is eventually replaced.

Economic paradigms are somewhat different from scientific paradigms. Scientific paradigms are built around theories that explain how natural phenomena work. Economic paradigms include not just theories explaining how the economy *does* work but also normative ideas about how it *should* work and prescriptive ideas on how it *could* work better. These normative ideas in turn are based on some set of moral values about what we want the economy to do, what its purpose is, and what constitutes *good* or *better* economic performance and outcomes for people.

Market Humanism is our synthesis of the work done over decades by a global, interdisciplinary community of scholars and practitioners. [It] is rooted in widely shared values, based on empirical, 21st-century scientific foundations, and points us in new directions to address our most critical economic challenges.

These three roles of economic paradigms lead to another difference from the natural sciences. Whether a scientist believes in Newtonian or Einsteinian theories of gravity has no effect on how gravity behaves. But whether people and their leaders believe in the theories of Adam Smith or Karl Marx, for example, has an enormous impact on how their economy behaves. Economic paradigms are *reflexive*; the ideas shape the system and the system shapes the ideas.[91]

We can break the three roles of economic paradigms down into more detail and imagine them as a stack of interrelated ideas, starting with a set of shared values that serve as its core principles, down through scientific explanations for how the system works, then to normative policies and institutional changes that (given our understanding of how the system works) would make

The Economic Paradigm Stack

	Level in the Paradigm Stack	Explanation
Values	**Moral Foundations**	Moral values that define the goals of the economy; what is "good" or "better"
Scientific	**Behavioral Theory**	Theories of human motivations and decision-making
	Economic Systems Theory	Theories of economic interactions and collective system behavior
	Processes of Innovation and Change	Theories of how the economic system changes over time
	Theory of Value	Theories of what economic value is and how it is created
	Theory of Progress	Theories about how economic outcomes get better over time
	Metrics	How we measure economic performance and change
	Markets and States	How markets and states interact
	Effects of Power	Theories of how power affects economic relations
	Causes of Inequality	How economic resources are distributed
Normative	**Implications for Society and Policy**	How these foundations affect how we should organize society and make policy decisions
	Corporations	The purpose of business and how it relates to society
	Environment	How the economy relates to and should interact with the biophysical environment
	Emblematic Policies	Key policies that would make the system perform better
	Public Narratives	Stories that explain how the system works and how it could perform better

Source: Adapted from Beinhocker & Bednar (2026).

The neoliberal consensus and Market Humanism are not merely rival policy menus. Market Humanism is a complete alternative paradigm stack, a contrasting worldview, a new common sense.

it work better (given our values). Finally, because making policy and institutional changes requires support, economic paradigms also provide public narratives—stories—about how the economy works and how we can make it work better.

An economic paradigm is thus more than a theory or a model. It is a full stack of interlocking values, theories, and practices that together define how we understand and govern the economy.

3.3. Changing Economic Paradigms

The Four Failed Paradigms of the Twentieth Century

Economic paradigms have changed many times in history, usually as a result of crises. What are typically called "classical" economic ideas (think Adam Smith) on the economy, trade, and markets once dominated thinking in the West from the Industrial Revolution into the early 1900s. But then the classical laissez-faire approach to markets failed in the face of the Great Depression, and the governing paradigm shifted in the U.S., U.K., and other Western countries to the ideas of John Maynard Keynes and his advocacy for an active role for government in the economy. During this period, crises brought about by World War I, the Depression, and colonialism also saw Marxist revolutions sweep countries around the world, shifting their paradigms from typically agrarian, feudal economies to centrally planned communist and socialist models.

The Keynesian and Marxist paradigms dominated the world through World War II and into the postwar period, but then, in the second half of the twentieth century, each ran into its own crisis. Marxist experiments led to poverty and misery for vast numbers of people; it is estimated that the collectivization of agriculture led to anywhere from 5 to 7 million deaths from starvation in the Soviet Union and 15 to 45 million starvation deaths in China.[92] Marxism hit its high-water mark in the 1970s when it was the governing ideology for about 1.5 billion people[93] (nearly a third of the world's population), but by the end of the century, after *glasnost*, the collapse of the Berlin Wall, and Deng Xiaoping's "Reform and Opening Up" in China, Marxist socialism had lost its grip on countries around the world.

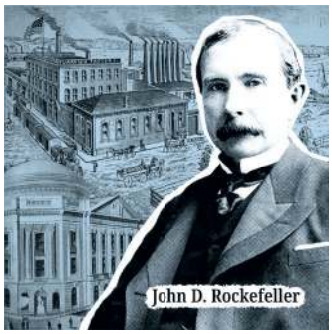
We earlier described how Keynesianism lost both intellectual and political support in the 1970s in the face of multiple crises, from the collapse of the Bretton Woods international currency system to stagflation, debt crises, and labor unrest. This laid the groundwork for the intellectual rise of figures such as Milton Friedman and the political rise of figures such as Ronald Reagan and Margaret Thatcher, driving the paradigm shift to the neoliberal consensus that would dominate politics, policy, and international institutions for the next fifty years.

Each of these four failed twentieth-century paradigms—laissez-faire capitalism, Marxism, Keynesianism, and the neoliberal consensus—in their time offered new ways of seeing the world, complete with moral justifications, explanatory claims about how economies work, quantitative metrics of success, policy toolkits, and stories that resonated with the public. Each was a "full stack" of interlocking, mutually reinforcing ideas—not just a critique of what came before, but a *replacement* that reached from the deepest philosophical foundations all the way up to the slogans politicians could repeat on television.

Today, we are living through another paradigm shift. Just as the Keynesian consensus collapsed in the 1970s, the neoliberal consensus collapsed in the 2010s. It is a paradigm whose time has passed. It is time to replace it.

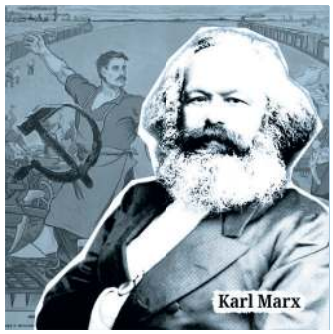
The Four Paradigms of the 20th Century All Failed

Laissez-Faire Capitalism
18th c. - 1920s



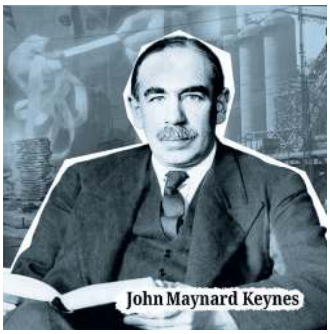
Crises:
- Great Depression
- WW I & WW II

Marxist Socialism
1910s - 1980s



Crises:
- Fall of Berlin Wall
- "Reform & Opening Up"

Keynesianism
1930s - 1970s



Crises:
- Bretton Woods collapse
- Stagflation

Neoliberalism
1970s - 2010s

Crises:
- Global Financial Crisis
- Populist backlash

3.4. The Market Humanist Paradigm
The Full Stack

Most critiques of neoliberalism have remained incomplete. They have tended to focus on a single layer of the stack of ideas—say, behavioral economics questioning the rational-agent model, environmental economics integrating ecological costs, or industrial policy debates about the role of the state. These contributions are important, but they have been piecemeal.

Without a complete replacement, we are stuck between the failed ideas of the neoliberal consensus and the chaos and incoherence of Trump's economic populism. Market Humanism is a modern, scientifically grounded, full-stack alternative to either paradigm.

▶ It begins with a different set of moral foundations: a focus on broad human well-being, not just pleasure from consumption (or as philosophers would put it, a shift from hedonic to eudaimonic ideas of what is "good").

▶ It reconceives human behavior not as homo economicus—a rational, selfish, utility calculator—but as homo sapiens, a cooperative, social, problem-solving species.

▶ It understands the economy not as a closed equilibrium machine but as a complex adaptive system, more like an evolving ecosystem.

▶ It defines progress not by GDP growth alone but by how the economy is "solving human problems"—increasing the well-being of people across the population.

▶ It does not see prosperity and economic fairness as a trade-off but instead shows how fairness causes prosperity.

▶ It envisions markets and states not as opponents but as essential partners in solving problems.

▶ It translates these foundations into emblematic policies—from investing in mission-driven innovation to labor policies that support living wages and full employment, modern industrial policy to accelerate the clean energy transition, and competition policy that creates true market competition.

▶ And it frames these policies in a compelling political narrative: We create prosperity by including, investing in, and empowering the broad middle of the electorate—prosperity grows from the middle out.

The neoliberal consensus and Market Humanism are not merely rival policy menus. Market Humanism is a complete alternative paradigm stack—a contrasting worldview, a new common sense.

In the sections that follow, we will briefly describe the core ideas of Market Humanism (in our forthcoming book, we will discuss them more in depth and the academic work behind them), contrast them with the neoliberal consensus, and discuss why this shift is not just of academic interest but matters fundamentally for shaping the world we live in.

From the Neoliberal Consensus to the Market Humanist Paradigm

From Neoliberal Consensus → To Market Humanism

Values

Moral Foundations

Enjoyment Through Consumption → **Human Flourishing**

Assumes the purpose of the economy is maximizing happiness through consumption, and that the most important freedom is negative freedom—i.e., "freedom from."

Built on the principles that the purpose of the economy is to support human flourishing, moral equality, and positive freedom—i.e., "freedom to."

Scientific

Behavioral Theory

Homo Economicus → **Homo Sapiens**

Assumes people are selfish, rational, utility-maximizing individuals making isolated choices.

Recognizes humans as cooperative, moral, prosocial decision-makers who learn, adapt, and rely on trust.

Economic Systems Theory

Optimizing Machines → **Complex Ecologies**

Sees the economy as moving toward an inherently stable equilibrium.

Understands the economy as a dynamic, evolving, feedback-driven system with no endpoint.

Processes of Innovation and Change

External Shocks → **Internal Evolution**

Treats innovation and change as random external events or "exogenous shocks."

Understands innovation as an endogenous process and markets as an evolutionary system.

Theory of Value

Market Prices → **Solving Human Problems**

Assumes efficient markets ensure that prices directly reflect value.

Defines value and prosperity in terms of solving human problems.

Theory of Progress

Growth in Productivity → **Growth in Human Cooperation**

Assumes improvements in productivity cause growth in output per person.

Understands inclusion and fairness are central to building the knowledge networks that produce better solutions to human problems.

Scientific

Metrics

Economic Output → **Human Outcomes**

Defines prosperity as maximizing output (GDP) and consumption.

Defines prosperity as the distribution of solutions that improve human lives, as measured by increased standards of living and improved well-being.

Markets and States

Opponents → **Ecology of Institutions**

Sees government as an opposing force to markets, distorting otherwise efficient outcomes.

Sees markets, states, and civil society as an ecology of institutions, each playing a role solving human problems.

Effects of Power

Limited to Pricing → **Fundamental to Outcomes**

Assumes power is irrelevant except in monopolistic and monopsonistic pricing.

Understands power is fundamental to economic reality, shaping institutions, and the distribution of value throughout the system.

Causes of Inequality

Meritocratic and Efficient → **Path-Dependent and Compounding**

Views inequality as the fair reward for effort and ability.

Sees inequality as significantly shaped by luck, initial conditions, compounding dynamics, and institutional design.

Normative

Implications for Society and Policy

Markets and Efficiency → **Inclusion and Flourishing**

Assumes that markets reflect merit, and that there is a trade-off between equity and efficiency.

Recognizes that market outcomes reflect power and can be inefficient, and that fairness causes prosperity.

Corporations

Maximize Shareholder Value → **Serve Public Purpose**

The only duty of business is to maximize returns for shareholders.

The duty of business is to solve human problems in a fair and sustainable way; profit is the reward for doing that.

Environment

Externality → **Embedded and Interdependent**

Treats the environment as external to the economy, serving as an infinite source of resources and infinite sink for waste.

Reflects the reality that the economy is embedded in and interdependent with the environment.

Normative

Emblematic Policies

Center "Job Creators"	**Center Working People**
Most salient policies are tax cuts, deregulation, privatization, labor market "flexibility," free trade, and lower government spending.	*Most salient policies are living wages, investing in infrastructure and capabilities, managed trade, tax fairness, resilience, and sustainability.*

Public Narratives

Trickle Down	**Middle Out**
The economy grows from the top down: When rich people have more money, they invest that money to create jobs and economic growth, which benefit everyone else.	*The economy grows from the middle out: A thriving middle class boosts demand and innovation, which causes economic growth and creates a dynamic business environment.*

PART IV:

THE MARKET HUMANIST PARADIGM

Moral Foundations

Defining the values and principles that anchor a better system

> "The goal of public policy and morality alike should be to enable people to live lives of human dignity —that is, to promote the conditions of human flourishing."[94]
>
> —*Martha Nussbaum*

4.1. A Moral Inversion

What Happens When We Embrace Selfishness

When Goldman Sachs CEO Lloyd Blankfein claimed bankers were "doing God's work" while distributing billions in bonuses after the 2008 financial collapse, he wasn't being ironic—he was expressing the sincere moral logic of the neoliberal consensus.[95] Under this framework, the relentless pursuit of profit isn't just acceptable; it's morally righteous.

The neoliberal narrative fundamentally inverts our moral compass. By elevating self-interest as the highest virtue and defining humans as essentially selfish utility maximizers, it rewards the worst aspects of human behavior while punishing the best.

This creates a "moral inversion"—a system where those with the fewest moral constraints enjoy systemic advantages. If humans are defined as fundamentally selfish, and if markets transform self-interest into prosperity, then logically, selfishness must be the primary cause of our prosperity. Under this framework, the more selfishly we behave, the more prosperous we supposedly become.

The real-world consequences are predictable: a corporate culture that rewards executives who unhesitatingly sacrifice employee well-being, community health, and environmental sustainability for quarterly profits. A business landscape where antisocial actions become competitive advantages. And a society where exploitation is rationalized as "economic efficiency."

	From Neoliberal Consensus	→	To Market Humanism
Values	**Moral Foundations**		
	Enjoyment Through Consumption *Assumes the purpose of the economy is maximizing happiness through consumption, and that the most important freedom is negative freedom—i.e., "freedom from."*	→	**Human Flourishing** *Built on the principles that the purpose of the economy is to support human flourishing, moral equality, and positive freedom—i.e., "freedom to."*
Scientific	Behavioral Theory	Homo Economicus →	Homo Sapiens
	Economic Systems Theory	Optimizing Machines →	Complex Ecologies
	Processes of Innovation and Change	External Shocks →	Internal Evolution
	Theory of Value	Market Prices →	Solving Human Problems
	Theory of Progress	Growth in Productivity →	Growth in Human Cooperation
	Metrics	Economic Output →	Human Outcomes
	Markets and States	Opponents →	Ecology of Institutions
	Effects of Power	Limited to Pricing →	Fundamental to Outcomes
	Causes of Inequality	Meritocratic and Efficient →	Path-Dependent and Compounding
Normative	Implications for Society and Policy	Markets and Efficiency →	Inclusion and Flourishing
	Corporations	Maximize Shareholder Value →	Serve Public Purpose
	Environment	Externality →	Embedded and Interdependent
	Emblematic Policies	Center "Job Creators" →	Center Working People
	Public Narratives	Trickle Down →	Middle Out

4.2. The Moral Foundations of the Economy

Flourishing, Not Just Consumption

Neoliberal Consensus: The Goal Is Happiness (Utility) Through Consumption

The neoliberal consensus drew its values from two historical strands of moral philosophy. First is the idea that the greatest human good is human pleasure. In the eighteenth century, the English philosopher Jeremy Bentham articulated his "utilitarian" version of this "hedonic" philosophy in the principle that "[i]t is the greatest happiness of the greatest number that is the measure of right and wrong."[96] While Bentham's principle and utilitarian philosophy played key roles in Enlightenment ideas that underpin modern democracy and law (e.g., ideas of human rights), it was incorporated into economics in a very narrow way—that humans gain pleasure or "utility" through consumption and leisure (work is viewed as just a way of earning money to enable consumption), and the goal of the economy is thus to maximize the most utility for the most people. This philosophical stance was then operationalized by theories at higher layers in the paradigm stack that claimed the way to do this is by individuals pursuing their self-interest in markets (thus leading to the popular interpretation that "greed is good") and that the way to measure economic success is by output (GDP) and consumption.

When Lloyd Blankfein claimed bankers were "doing God's work" while distributing billions in bonuses after the 2008 financial collapse, he wasn't being ironic—he was expressing the sincere moral logic of the neoliberal consensus. Under this framework, the relentless pursuit of profit isn't just acceptable; it's morally righteous.

The second philosophical strand is libertarian philosophy, and specifically a negative definition of freedom, which asserts the freedom that matters is freedom from constraint or coercion, particularly from the state.[97]

Together, these philosophical roots have fed values of maximizing consumption, growth, and profits as well as maximizing freedom from rules and constraints. This ignores the fact that consumption alone doesn't lead to long-term happiness, that the quality of growth and the equity of profits matters, and that freedom from constraint can also mean freedom to exploit people and the environment.

The Three Moral Pillars of Market Humanism

Human Flourishing

Moral Equality

Positive Freedom

Market Humanist View: The Purpose Is Human Flourishing

The first moral pillar of Market Humanism draws from "eudaimonic" philosophy (e.g., Aristotle) that the purpose of the economy is to support *human flourishing* in its broadest sense. Humans aren't just pleasure and consumption machines—rather, decades of empirical

research (and centuries of religious and philosophical wisdom) show that well-being also stems from our familial and social connections, the meaning we get from in our work, feelings of autonomy and control over our lives, our physical and mental health, the kind of society we live in, and the quality of our physical environment. The economy impacts all of those dimensions of well-being—so, the goal shouldn't be just buying more stuff. Instead, the economy should support human well-being in its fuller sense. In the simplest of terms, the economy exists to make our lives better (and at least not to make our lives worse)—it exists to serve us, not the other way around.

Second is the idea of *moral equality*. This is an idea with deep roots in religion (e.g., all people are equal in the eyes of God) as well as in the Enlightenment philosophy that influenced the Founders of the U.S. (e.g., the famous line in the Declaration of Independence penned by Thomas Jefferson: "that all men are created equal, that they are endowed by their Creator with certain unalienable Rights..."). In Market Humanism, everyone has an equal right to live their life to its fullest potential—an equal right to human flourishing—and the economy should support that.

Third is the idea of *positive freedom*. To live life to its fullest potential, people don't just need "freedom from" constraint; they also need "freedom to" pursue their hopes and dreams. This idea also has deep philosophical roots but was brought into the economic sphere by Nobel laureate Amartya Sen, who argued that poverty and deprivation were a form of "unfreedom" and that people need "capabilities" to live life to its full potential and flourish.[98] Thus, people living in economies where healthy food, decent housing, healthcare, education, information, job opportunities, security, and other necessities are widely available to most of the population have more freedom to pursue the lives they want to lead than people in economies that don't.

If we sum up the moral foundations of Market Humanism, it would be this:

The purpose of the economy is to support human flourishing and provide everyone the freedom to live their lives to their fullest potential.

In other words, an economy built for humans.

PART V:

THE MARKET HUMANIST PARADIGM

Scientific Foundations

From textbook abstractions to real-world complexity

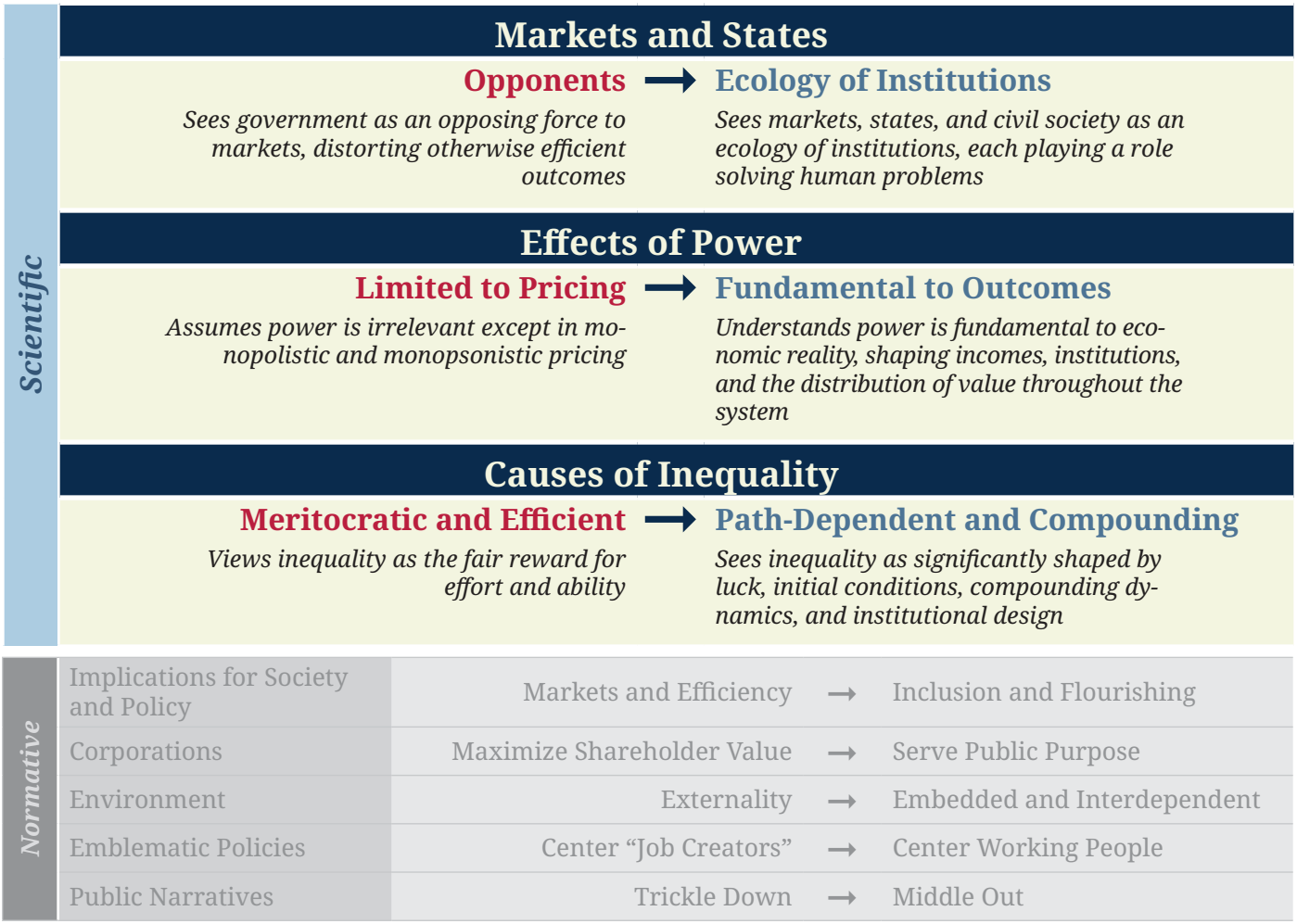
> "The decision to reject one paradigm is always simultaneously the decision to accept another, and the judgment leading to that decision involves the comparison of both paradigms with nature and with each other."[99]
>
> —*Thomas S. Kuhn*

5.1. Rooted in Reality

New Understandings and New Economics

As described earlier, economics has changed significantly from its neoclassical heyday in the 1970s through the 1990s. There have also been enormous advances in our understanding of human behavior from neuroscience, cognitive science, and psychology, as well as deeper insights into human social systems and institutions from anthropologists, sociologists, and political scientists. And the computer and data revolutions of the past decades have enabled scholars to study the economy not as a simple machine but rather as the complex, dynamic, evolving web of social and political dynamics that it is.

The net effect of these advances has been to move away from the highly abstract models with assumptions of perfectly rational actors in perfectly efficient markets, which most people would have found in their Econ 101 textbooks in the past, to a much richer view of the economy, rooted in empirical reality.



5.2. Behavioral Theory

Homo Economicus vs. Homo Sapiens

Neoliberal Consensus: Humans as Selfish, Rational Utility-Maximizers

Building off Bentham's idea that humans are self-interested pleasure machines, or "utility maximizers," for more than a century, economists portrayed humans as highly rational, asocial beings, pursuing their self-interest with infinite foresight, perfect information, and fixed preferences—a model often called "Homo economicus."

As behavioral economist Dan Ariely puts it, "Standard economics assumes that we are rational—that we know all the pertinent information about our decisions, that we can calculate the value of the different options we face, and that we are cognitively unhindered in weighing the ramifications of each potential choice."[100]

This model has the advantage of mathematical tractability. It allows economists to build elegant models that make precise predictions about human behavior. The problem is that, as shown by Nobel laureate Daniel Kahneman and others, these predictions are very often wrong.[101]

Market Humanist View: Humans Are Cooperative, Prosocial Decision Makers

In contrast, Market Humanism draws on the past several decades of empirical behavioral science research to ground its paradigm in how real Homo sapiens make decisions and behave. Real humans are:

- **Bounded in their rationality:** We have limited information, limited cognitive capacity, and limited time to make decisions.
- **Heuristic in their decision-making:** We use heuristics (rules of thumb) rather than complex calculations, and those heuristics change over time as we learn and adapt.

Homo economicus	Homo sapiens
• rational	• bounded rationality
• self-interested	• heuristic learner
• perfect information	• prosocial
• stable preferences	• multiple motivations

In the market humanist view, humans seek to cooperate to solve problems they cannot solve on their own.

▶ **Subject to cognitive biases:** We systematically deviate from rational decision-making in predictable ways, such as loss aversion and confirmation bias.

▶ **Prosocial, not purely self-interested:** We care about others and have innate moral intuitions about fairness, reciprocity, and cooperation.

▶ **Influenced by social and cultural context:** Our preferences are not fixed but change and are shaped by our environment, the behavior of others, and social norms.

▶ **Motivated by multiple factors:** Beyond material self-interest, we are driven by intrinsic motivations like curiosity, mastery, status, caring, and social connection.

Arguably, the most important of these points is the fourth one—that humans aren't the selfish individualists of traditional economic theory but are highly cooperative and "prosocial." As Samuel Bowles and Herbert Gintis wrote, "the idea that selfish genes must produce selfish individuals is false." Evidence for this comes from decades of lab experiments, anthropological studies, neurobiology studies, and moral psychology research.

Humans are what evolutionary theorist Martin Nowak calls "super cooperators."[102] If you ask a zoologist or evolutionary biologist what makes humans unique as a species, they will reply that it isn't just our big brains and capabilities like language, but that we use those brains and language skills to cooperate at a scale and complexity that no other species can match.

These insights don't mean that humans are simply irrational or that incentives don't matter. But they do mean that the simplistic model of Homo economicus is inadequate for understanding real human behavior.

A more realistic model recognizes humans as Homo sapiens: highly social, morally intuitive, heuristic decision makers. Humans are both selfish and groupish, and it was our skill at managing that tension and thus enabling cooperation in large groups that gave our species its evolutionary edge. Our evolutionary cousins, the chimps, are able to both use tools and cooperate in groups, but they can't get tens of thousands of individuals to cooperate to build a space station. As we will discuss, it is humankind's skill as super cooperators that makes the economy itself possible.

🌐 **Real-world example: *Ostrom's Community Resource Management.*** *Nobel laureate Elinor Ostrom documented how communities around the world successfully manage shared resources (forests, fisheries, irrigation systems) through prosocial cooperation and reciprocal norms, contrary to the notion that selfishness is the primary driver of economic behavior.*[103]

5.3. Economic Systems Theory
Optimizing Machines vs. Complex Ecologies

Neoliberal Consensus: Economies as Pareto-Optimal Equilibrium Machines

All economic paradigms have a systems theory—explanations as to how individual human behaviors in the economy interact to create collective system-level behaviors. From the late nineteenth through the twentieth centuries, economists developed a theory that viewed the economy as a kind of self-optimizing machine (inspired by the Industrial Revolution physics and technologies of their time). The basic idea was that rational, utility-maximizing individuals, pursuing their

From the late 19th through the 20th centuries, economists developed a theory that viewed the economy as a kind of self-optimizing machine.

self-interest in free markets, would trade with each other until everyone was as happy as they could be without forcing someone to make a trade they didn't want to make. At this point, supply and demand would be in balance, trading would stop, and the market would come to rest in equilibrium. Vilfredo Pareto, a nineteenth-century Italian polymath, argued that in a society in which people had freedom to make their own choices (i.e., no one could raise total societal utility by forcing people to do things they don't want to do), the economy would be socially "optimal" and resources would be allocated "efficiently" because societal utility was maximized.[104] In the 1950s, Kenneth Arrow and Gérard Debreu showed mathematically that, given a number of assumptions, free markets would inevitably reach this *Pareto optimal* point.[105]

While the work was mathematically brilliant, it had little to do with real-world markets or economies—as Arrow himself often admitted.[106] The result depends on all of those assumptions about perfect rationality, perfect competition, perfect information, and so on. Joseph Stiglitz won his Nobel Prize for showing that if just one of those assumptions isn't true—if people have asymmetric information—the whole result collapses like a house of cards.[107]

A further problem is that the theory assumed the system would stay in its optimal equilibrium until some shock from outside the system (e.g., a technology or policy shift) changed things. Then, markets would get back to work and find a new equilibrium. But in the real world, such shocks are happening all the time, and so the economy is highly dynamic; it is *always* in transition. From a policy perspective, what we often really care about are those transitions—what happens when there is an inflation spike or a tax cut, or when a new technology hits the labor market? As the authors of the most widely used graduate microeconomics textbook put it, "Economists are good (or so we hope) at recognizing a state of equilibrium but are poor at predicting precisely how an economy in disequilibrium will evolve."[108]

Furthermore, in this framework, current distributions of wealth and income, regardless of how unequal or unfair, are considered optimal by definition. Therefore, efforts to challenge entrenched economic inequalities are perceived as inefficient, unjustified interference in the efficient workings of markets. This creates a built-in status quo bias favoring existing power structures and inequalities, rationalizing them as the optimal outcome of an inherently balanced economic order. This ties the hands of policymakers who must argue that any changes in the current (assumed to be optimal) order are justified, despite their assumed economic "costs."

Market Humanist View: Economies as Complex Adaptive Ecologies

In contrast, Market Humanism's systems theory is built on modern complex systems science. This view sees the economy as a complex, dynamic web of interacting individuals and institutions, more akin to other complex, networked systems—like ecologies or the brain—than a machine.

As complexity economist W. Brian Arthur observes, complexity economics "sees the economy not as a system in equilibrium but as one in motion ... perpetually constructing itself anew. Where equilibrium economics emphasizes order, determinacy, deduction, and stasis, this new framework emphasizes contingency, indeterminacy, sense-making, and openness to change."[109]

Market Humanism Has a Complex, Adaptive View of the Economy

Emergence

Feedback Loops

Path Dependence

Networked

Thermodynamically Open

Such systems are characterized by networks within networks. Economies are characterized by supply chain networks, trading networks, financial networks, job market networks, technological networks, and social networks. The interactions in these networks create *emergent* patterns of behavior. Just as a whirlpool emerges from the interactions of individual water molecules, economic patterns such as business cycles, inequality, inflation, financial booms and busts, and carbon emissions emerge bottom-up from the dynamic interactions of consumers, workers, firms, financial institutions, and policymakers.

Complex adaptive systems such as the economy are also characterized by feedback loops that can amplify behaviors, creating system dynamics that are far from optimal—for example, the rapid takeoff of a new technology that creates a monopoly lock-in, or a market panic that creates a financial crash. Government policies often provide dampening feedback—for example, competition policy to prevent monopoly lock-in, or Fed interventions in a financial panic.

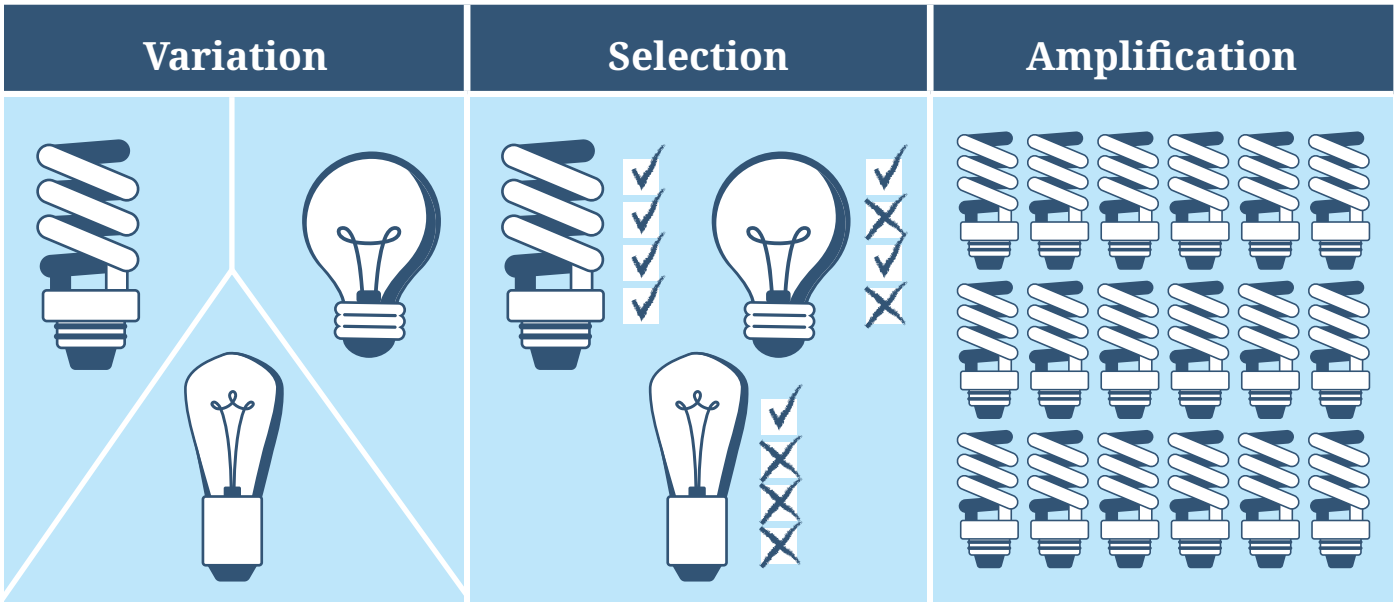
Likewise, such complex systems are path dependent, i.e., history matters (which is not the case in the neoliberal equilibrium model). Factors such as systemic racism in the past can echo economically into the present, even long after the laws changed.

From a market humanist perspective, the economy is always dynamically changing. It is never optimal, but some economic orders are better (in that they better support human flourishing) or worse than others.

Thus, instead of a status-quo bias, Market Humanism has a progress bias—the goal is to support the economic system's evolution to better states over time.

The constant dynamics and change in the economy have a further implication. Complex adaptive systems are what scientists call *thermodynamically open systems*. Biological organisms are able to grow, evolve, change, and interact because they continuously take-in inputs of energy, materials, and information from their environment, and use that to create order in their bodies and social and physical environments, and to power their activities. The thermodynamic price of all of that order creating and activity is their metabolisms also export waste heat, gases, and products (entropy) back into the environment.

The economy is no different. Physicist J. Doyne Farmer calls it the "metabolism of civilization."[110] Economies take in inputs of energy, materials, and information from the environment, create order and activity, and then export waste back to the environment. As we will see, this complex adaptive systems perspective has profound implications for how we think about the economy's relationship with the environment.



Market Humanism understands that markets solve human problems through a process of variation, selection, and amplification.

Real-world example*: the 2008 financial crisis.* *In the 2008 financial crisis, declines in home prices in a few U.S. markets cascaded into a global financial conflagration. This was due to a combination of network and feedback effects. As securities and derivatives tied to mortgages lost value, banks holding those assets faced liquidity problems, forcing the selling of other assets, driving their prices down, which then spread like a contagion through networks of financial institutions, causing some to fail (most famously, Lehman Brothers). This was a profoundly destabilizing event, and the downward spiral was only stopped by massive central bank and government intervention. Complex systems researchers have shown how these network structures and dynamic feedbacks contributed to the fragility of the system, and that the problem wasn't limited to banks "too big to fail" but also banks that were "too connected to fail."*

5.4. Processes of Innovation and Change

External Shocks vs. Internal Evolution

Neoliberal Consensus: Innovation as Random Exogenous Event

In the textbook fantasy world where people are rational, preferences are fixed, and markets are efficient, there can only be two sources of change in the system. First, change can come from outside the economic system—"exogenous shocks," in economic parlance. Innovators create new technologies, politicians change policies, weather events affect crop yields, and so on. Such shocks change the productivity of labor and capital and the relative costs of things, and then the second source of change kicks in. The rational, self-interested people then have incentives to change what they make, sell, and buy, and through the magic of competitive markets, prices adjust, resources are reallocated, and things smoothly glide to a new, optimal equilibrium.

The Austrian economist Joseph Schumpeter was a famous critic of this approach, claiming that economics had no real theory of change and progress, as if innovation was manna that falls from heaven, outside the explanations of economics.[111] Inspired by Schumpeter's theories on the subject, a field of innovation economics developed—but like innovation itself, it has historically sat outside the mainstream of economic theories and models.

Neoclassical models generally treat innovation as something that just "happens"—an exogenous shock that occasionally enters the system to boost productivity. It is not explained within the model, nor is it shaped by policy.

As a result, the economic models most widely used by policymakers downplay or entirely ignore the

institutional, cultural, and structural conditions that allow innovation to emerge in the first place. Growth is often portrayed as a function of capital accumulation, marginal incentives, and equilibrium mechanics—not of human creativity, cooperation, or purpose.

Market Humanist View: Innovation as a Core Economic Process

Market Humanism turns this logic inside out. It understands that innovation is not an accident. It is not manna capriciously raining from heaven. On the contrary, innovation—evolving better solutions to human problems—is a central task of the economic system.

Market Humanism sees the economy as literally (not just metaphorically) an evolutionary system. Building on a long history of evolutionary thinking in economics (though, again, outside the mainstream), Market Humanism sees the economy as constantly engaged in a Darwinian process of:

- **Variation:** Entrepreneurs, businesses, and other actors generate a diversity of potential solutions to problems.
- **Selection:** Consumers, investors, and other stakeholders select which solutions best meet their needs.
- **Amplification:** Successful solutions attract resources and are scaled up, while unsuccessful ones are scaled down or abandoned.

Innovation, in this view, is not the product of a lone genius responding to marginal incentives. It is an emergent, collective, cumulative process—one that depends on the presence of effective institutions, knowledge-sharing systems, and social infrastructures.

This evolutionary process allows society to explore the vast space of possible technologies, institutional designs, business models, and products and services, without anyone needing to know in advance which ones will work. It harnesses distributed knowledge and creativity in a way that no centralized system could.

NOTE

Innovation is not exogenous. It is bottom-up and emergent within the system. It arises from people cooperating to solve problems, creating and sharing knowledge in well-designed institutions. And markets are one of the key institutions in this evolutionary story. In this evolutionary view, entrepreneurs and firms generate variety, while markets act as a selection mechanism, amplify what works through investment, and scale down or shut down things that don't work.

This evolutionary perspective changes how we think about market efficiency. The goal isn't to optimize the allocation of existing resources, but to maximize the system's ability to generate and test *new* solutions. This may sometimes require what would look like "inefficiency" from a static perspective—redundancy, experimentation, and even failure. In fact, like all evolutionary systems, markets must be "inefficient" in order to foster experimentation and innovation. For example, approximately one-third of all businesses fail within the first two years.[112] In the market humanist view, the real genius of markets isn't their efficiency in allocation; it is their *effectiveness* in innovation.

When economic systems are structured to foster experimentation, learning, and iteration, new solutions emerge. When they are not, stagnation sets in. Economist W. Brian Arthur has written extensively about the nature of this process.[113] He argues that technologies do not emerge in isolation, nor are they invented from scratch. Instead, technologies are always made out of other technologies—it is a bootstrapping, recursive

process of combining and recombining technologies and solutions into new architectures and configurations to solve new problems. Each generation of technologies becomes the building blocks of the next, just as earlier solutions enable future discoveries. As Arthur puts it, "Technology creates itself out of itself."[114]

Innovation, in this view, is not the product of a lone genius responding to marginal incentives. It is an emergent, collective, cumulative process—one that depends on the presence of effective institutions, knowledge-sharing systems, and social infrastructures that allow ideas to mix, problems to surface, and solutions to be tested and scaled. Yes, entrepreneurs like Thomas Edison and Steve Jobs were undoubtedly geniuses, but their genius was only possible due to the social and knowledge ecosystems they were embedded in and the accumulated knowledge of millennia.

What matters most is not simply having the right incentives but having the right ecosystem: a society that treats learning and experimentation as public goods, that reduces barriers to entry, and that invests in broad participation so that more people have the opportunity to contribute new ideas and adapt existing ones.

Innovation doesn't strike from the outside—it grows from the inside. It's not a shock to the system—it *is* the system.

Real-world example: *evolution of smartphones.* *The modern smartphone evolved from iterative experimentation—starting with early cellular phones, PDAs, and digital music players—through market competition, consumer feedback, and continuous selection and replication of successful innovations.*

5.5. Theory of Value

Market Prices vs. Solving Human Problems

Neoliberal Consensus: Market Price Equals Value to Society

All economic paradigms have a theory of value—i.e., what is economic "value," and how is it created? For early thinkers, value was intrinsic, something in the function of a plot of land, a cow, or a handful of nails. For classical economists like Adam Smith and Karl Marx, value came from labor. It took a worker to plough the land, milk the cow, or make the nails.

But starting in the nineteenth century, economists began to see value not as something objective but subjective, in the eye of the holder. According to this theory, value is a function of our utility—how much pleasure we get from the cow's milk or the things made with the nails. But we can't see "utility" inside people's heads; all we can observe is the choices people make. However, we can say that if people are rational, self-interested utility maximizers, their choices in markets will reflect their perceptions of value: If they value something a lot, they will pay more for it, and if not, less. And if markets are efficient, then we can think

Market Humanism Distinguishes Price from Value

Price

Prices reflect temporary conditions and power dynamics—they are a communications mechanism in a market system, sending signals about supply and demand and transmitting knowledge from one part of the economy to another.

VS.

Value

Value emerges from how effectively a solution addresses real human needs, not necessarily the monetary amount exchanged. It is created when a product or service delivers a function to a person that meets a need and enhances their well-being.

Economic progress means solving more problems than we create and ensuring that these solutions are accessible to as many people as possible.

of markets as societal voting machines where market prices reflect a consensus as to what has value and what doesn't in society.

While this all sounds commonsensical, it relies on a lot of assumptions. Sometimes these assumptions might not be a bad approximation—if the price of the Chom-Chom Pet Hair Remover is $24.99 on Amazon, perhaps that is our best indicator of the value that pet owners place on being able to easily remove pet hair from their carpets. Who are we to say it is, or that it should be something different?

But we also know there are lots of exceptions where the assumptions don't hold and market prices deviate from more fundamental and intuitive notions of value in many ways. For instance, financial markets have bubbles; unpaid care work (often done by women) delivers enormous value to people and society; power dynamics distort markets raising prices (in the case of oligopoly or monopoly) or lowering wages (monopsony); and economic activities can create benefits ("positive spillovers," e.g., R&D investments) or problems ("negative externalities," e.g., pollution) that aren't reflected in market prices.

Textbooks portray these exceptions as rare "market failures," but in the real economy, they are quite common and have a big impact, meaning that many of our most used economic measures such as GDP aren't always reliable guides to whether the economy is creating real value that is enhancing people's well-being and quality of life or whether economic activities are actually harming people. And market prices and GDP say nothing about how value is distributed in a society.

Market Humanist View: Value Is Created by Solving Human Problems

Market Humanism takes a different approach. It views price and value as two separate (although related) concepts. We take the Nobel laureate Friedrich Hayek's view that prices are an essential decentralized communications mechanism in a market system, sending signals about supply and demand and transmitting knowledge from one part of the economy to another.[115] But value is created when a product or service delivers a function to a person that meets a need and enhances their well-being—we call this **solving human problems**. This is different from utility: It is about delivering function and meeting needs, rather than pleasure and consumption—more Amartya Sen than Jeremy Bentham (but that is a longer, more academic discussion).

This enables us to separate activities that increase well-being as value creating from activities that reduce well-being. For example, a drug that cures cancer and a product that causes cancer might both have a market price, but one "solves a problem" and thus is value-creating, and the other "causes a problem" and thus is value-destroying. GDP, which simply adds up the market prices of the products and services produced, doesn't make such distinctions.

Market Humanism thus defines value and prosperity in terms of *outcomes*—solving problems that people face in ways that make their lives better and increase their well-being. For example, better food and nutrition, more comfortable housing, better healthcare, greater physical and economic security, better access to information, more fun entertainment, and so on. Under this view, *prosperity* isn't money or GDP. It is the *accumulation of solutions to human problems*. Economic progress means solving more problems than we create and ensuring that these solutions are accessible to as many people as possible. *Growth* in real prosperity is best understood as *the rate at which we evolve new and better solutions to human problems*.

This perspective changes how we evaluate economic performance. Instead of focusing solely on output, the quantity of goods and services produced, we should ask about outcomes:

▶ **Are we solving the right problems?** Do our economic activities address the most pressing human needs and challenges?

▶ **Are we creating more problems than we are solving?** Do our economic activities generate negative externalities (like pollution or social disruption) that offset their benefits?

▶ **Are solutions accessible to all?** Do the benefits of economic progress reach the broad population, or are they concentrated among a privileged few?

▶ **What measures of human well-being are improving?** Is the well-being of the typical citizen or family improving? Of most families? Are they healthier, happier, more secure?

▶ **Is societal well-being improving?** How stable is the society, and is social trust and cohesion increasing or decreasing?

This market humanist perspective on prosperity doesn't reject the importance of material standards of living. But it sees material goods and services as situated in a broader conception of human well-being. It builds on decades of empirical research showing that material standards of living are just one factor in multiple dimensions of life satisfaction that include health, family, meaningful work, social connections, and physical environment.[116]

As we've noted, the economy impacts all these factors. So even if we're getting more stuff from Walmart and GDP is going up, but we're also getting sicker, having less family time, becoming more disempowered at work, and living with less social cohesion and a polluted environment, we're not improving well-being—we're creating more problems than we solve.

As we will discuss, we thus need new metrics that look more granularly and fundamentally at the impact the economy is having on the quality of people's lives—their physical and mental health, housing, transport, education, access to information, security, environment, and community. True value is only created when we solve more problems than we create—when the economy makes people's lives better in real, tangible ways across the population.

Real-world example: *unpaid care work.* *Globally, unpaid care and domestic work—predominantly undertaken by women—contribute immense societal value, estimated in dollar terms at $11 trillion per year, yet remain undervalued or invisible in traditional economic measures like GDP, highlighting the critical shortcomings of equating price with value.*

5.6. Theory of Progress
Growth in Productivity vs. Growth in Human Cooperation

Neoliberal Consensus: Progress Is Growth in Output Per Capita

The neoliberal consensus is built on a simple and mechanistic view of progress—that progress is simply more stuff, growth in output, or GDP per person. Economists like to joke that the most "efficient" Nobel Prize ever awarded was to Robert Solow for his very short equation describing economic growth. That equation basically said that growth in output was a function of the scaling of three variables: labor, capital, and productivity.[117] Since labor growth is dependent on population growth, that is outside the bounds of economics, and since the stock of capital depends on savings rates and output in the past, growth from capital accumulation alone is inherently limited. The variable that really

Market Humanism builds on decades of empirical research showing that material standards of living are just one factor in multiple dimensions of life satisfaction that include health, family, meaningful work, social connections, and physical environment.

matters for long-run growth is productivity. Productivity is thus what ultimately drives growth in output per person, which economists assert correlates with living standards. Productivity in turn is a function of that mysterious exogenous factor of technology or knowledge—again, Schumpeter's "manna from heaven" that we discussed above in Section 5.4.

Paul Romer also won a very efficient Nobel for his "endogenous growth theory" which built on Solow's model to note that just as one can invest in capital, one can invest in knowledge, which has increasing returns because more knowledge begets more knowledge.[118] Thus, knowledge investments in education and R&D are a good thing for growth and have "positive spillovers" for society, so there's a role for government to invest in these things as private companies on their own might not invest enough.

But while these theories purport to explain how economies create "more" (although their records on empirical prediction of that are spotty at best), they don't actually tell us how we create "better." They don't really offer a theory of human progress.

Market Humanist View: Progress Comes from Growing Cooperation to Solve Human Problems

Building on our behavioral view of humans as a cooperative species, our evolutionary view of economic experimentation and change, and our view of value as solutions to human problems, Market Humanism offers a radically different theory of human progress. At its heart, the story is a simple one:

Market Humanism recognizes competition as essential but posits that cooperation is the more fundamental driver of economic advancement. In fact, it is *a competition to be the best cooperators* that characterizes the history of economic progress.

Drawing insights from evolutionary science, Market Humanism emphasizes humans' unique evolutionary trait—our remarkable ability to cooperate. As economist Samuel Bowles explains:

"While cooperation is common in many species, *Homo sapiens* is exceptional in that in humans cooperation extends beyond close genealogical kin to include even total strangers, and occurs on a much larger scale than other species except for the social insects."[119]

On our own, as individuals we can only solve relatively simple problems, based on our individual capabilities, skills, and knowledge. But by cooperating, humans can create miracles—we can solve incredibly complex problems, from creating a vaccine for COVID-19 to building the International Space Station. Our modern, technological world is entirely dependent on cooperation at massive scales with people we don't know and will never meet. The products we buy are created by complex, global supply chains, and the services we use are made possible by cooperation and knowledge-sharing across individuals and companies. One view of economic history is that it is a history of the scaling of cooperation, from small bands of closely related hunter-gatherers to villages, towns, empires and trading networks that emerged after the Agricultural Revolution to the nation states, corporations, and global markets that were forged in the Industrial Revolution.

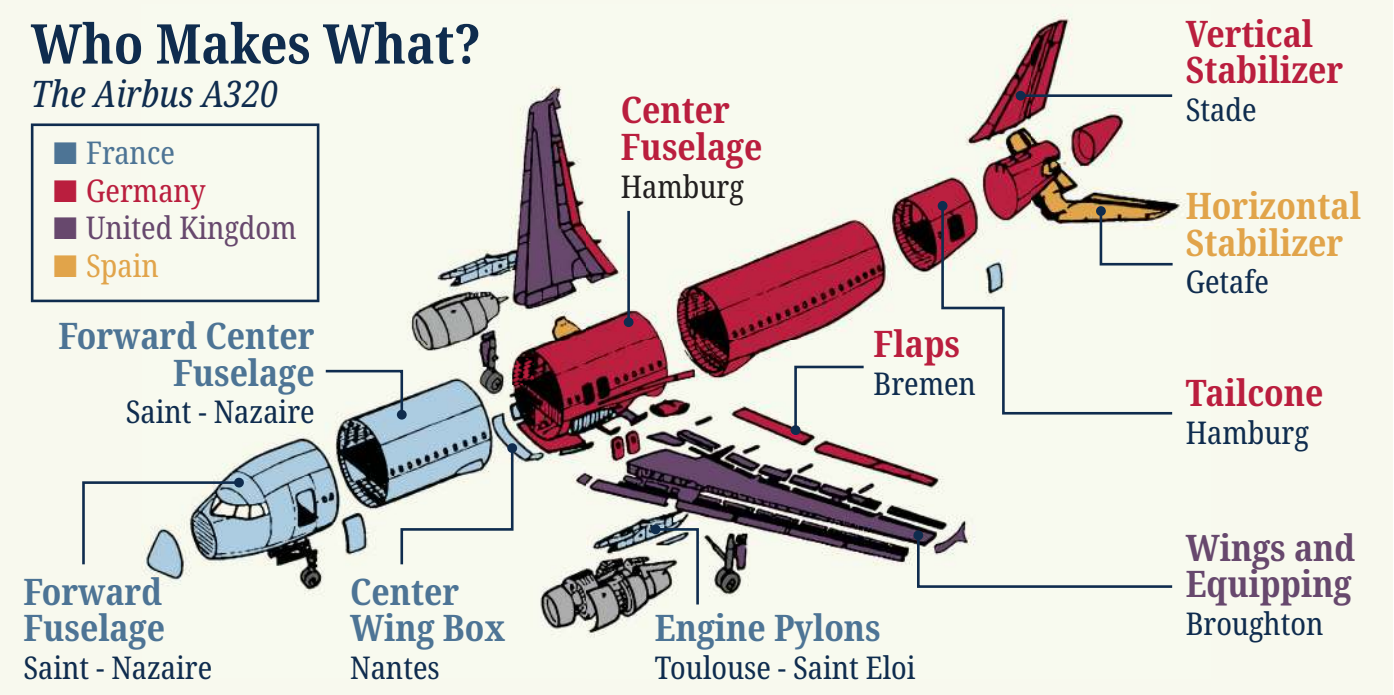
Cooperation is what economists call a "nonzero-sum game." By doing stuff together, we create value (solve problems) that we cannot create on our own—with cooperation, 1+1 = 3. This miracle of cooperation has three sources:

How Cooperation Drives Economic Activity

Combining Capabilities

Specializiation of Skills

Specialization and Recombination of Knowledge



César A. Hidalgo and Ricardo Hausmann introduced the concept of "personbytes"—the finite amount of knowledge that a single individual can hold in their head. The capacity of individual human minds has not expanded much in the past 50,000 years, but our collective societal knowledge has grown exponentially. This is because humans have learned to divide up their personbytes, specialize their knowledge, network that knowledge together, and work cooperatively to solve complex problems.

▶ First is capabilities—building a house (a solution to the problem of needing shelter) entirely on one's own is very difficult, but a group of people cooperating can move heavier objects, hold things in place for each other, etc., and combine their capabilities to build a much better house.

▶ Second is skills—cooperation enables specialization of skills. Say one person is a carpenter, another a mason, and another a painter. They can together be more productive and build a better house (this was Adam Smith's famous observation on the division of labor in the pin factory).

▶ And third is knowledge—this is perhaps the biggest payoff of all. By cooperating, we can create a division of knowledge, where it can be specialized, combined, recombined, innovated, tested, and accumulated by groups of people working together. Knowledge creation is an inherently social, cooperative activity.

Economists César A. Hidalgo and Ricardo Hausmann argue that the true wealth of nations lies in its networks of knowledge and know-how, as well as a nation's capacity to utilize that distributed societal knowledge to make complex, high-value goods and services.[120] They observe that as individuals, humans have a finite amount of knowledge they can hold in their head—an amount they call a "personbyte."[121] They note that the capacity of individual human minds—the personbyte—has not expanded much in the past 50,000 years, but our collective societal knowledge has grown exponentially.[122] This is because humans have learned to divide up their personbytes, specialize their knowledge, network that knowledge together, work cooperatively to solve complex problems and store their collective knowledge in the "cloud storage" of human culture (e.g., stone tablets, epic poems, papyrus scrolls, books, computers).[123]

A smartphone, for example, is not made by a lone genius but by a vast, distributed system of people, skills, machines, and institutions that each hold a piece of the puzzle. In fact, not only is it impossible for any single individual to know everything it takes to make a smart-

phone, but no single country has all of that knowledge and know-how. Smartphones are made possible by a vast global network of supply chains and personbytes.

In the online *Atlas of Economic Complexity*, Hausmann and other researchers with the Harvard Growth Lab show that countries grow rich not merely by producing more things but by producing more *complex* things.[124] These products embed larger amounts of knowledge and require denser collaborative ecosystems. But because countries can only develop new industries by first mastering related capabilities, moving into new areas of production requires the gradual accumulation of adjacent knowledge—what they call navigating the "product space."[125] Countries that lose key industries and capacities don't just lose jobs; they lose stepping stones to future prosperity.

Offshoring and deindustrialization, then, don't merely reallocate production—they dismantle complex, interdependent ecosystems of expertise. Once these systems are lost, they are exceedingly difficult to rebuild.

NOTE

Market Humanism views the development, preservation, and expansion of national knowledge networks as a national strategic imperative. Rather than chasing short-term cost savings through offshoring, it prioritizes investments that enhance national capabilities: education, workforce development, regional innovation hubs, supply-chain resilience, and applied-research institutions. It also includes supporting strategic industries, investing in industries of the future, and onshoring industries that add to national resilience and innovation potential. Prosperity, in this view, comes not from maximizing consumer access to cheap goods but from maximizing society's ability to solve more complex problems and create more value.

This is not to say that Market Humanism is anti-trade. In fact, trade is essential to growing personbyte networks beyond national boundaries and building capacities that not even the largest countries can build on their own.

Market Humanism recognizes competition as essential but posits that cooperation is the more fundamental driver of economic advancement. In fact, it is a competition to be the best cooperators that characterizes the history of economic progress.

Many complex goods and services, from smartphones to aircraft to pharmaceuticals, are only possible with global knowledge networks and supply chains. So, trade policies need to distinguish between fair trading relationships that build networks and mutual capacities versus zero-sum relationships that destroy critical capacities for one partner. In short, the real source of progress lies not in transient price efficiencies or mere consumption but in the collective problem-solving capacity of dense, cooperative networks of knowledge and know-how.

At the end of the day, it wasn't selfish individualists competing in markets who brought humankind from the Stone Age to the Space Age. It was clever cooperators, innovating new and better institutions and culture norms to harness our prosociality and scale cooperation over space and time. Competition and markets play a role, but it is a role in the evolutionary process we described earlier. Markets create evolutionary competitions to see who can be the best cooperators, e.g., which vast ecosystem of cooperation—Apple's or Samsung's—can make a better smartphone?

From this perspective, markets are less arenas of pure competition and more structures facilitating competition among cooperative entities. Firms themselves are cooperative enterprises competing against other cooperative enterprises, and success hinges primarily on effective internal collaboration.

This offers a fundamentally different perspective

on the role of markets in society. Again, markets are not the efficient allocator of resources theorized in standard economics. Instead, the role of markets is to create evolutionary competitions amongst groups of cooperators to be better at cooperating to solve complex problems. To be better (or, in evolutionary terms, fitter) at creating the networks of knowledge and know-how to create products and services that provide better solutions to the problems people face. This kind of market competition drives innovation to create new and better solutions to human problems.

And all of this cooperating—or personbyte network building—depends on the most precious economic commodity of all: *trust*. Societies that have cultures and institutions that can create trust at scale can then cooperate at scale and solve big, complex problems. This is what creates true prosperity and progress.

Real-world example: *South Korean economic development.* *Since the end of the Korean War in 1953, South Korea has undergone a remarkable transformation from extreme poverty to a high-income industrial economy. GDP per capita rose from roughly $158 in 1960 to over $33,000 by 2023. A key driver of this transformation was the government's strategic use of industrial policy to build domestic capabilities (i.e., networks of personbytes) and move systematically into higher-value industries. South Korean firms advanced from one "adjacent opportunity" to another, upgrading from low-value manufacturing to complex, technology-intensive production. The state fostered cooperation at scale through the chaebol system (networks of affiliated companies) while maintaining intense competition in export markets. Rather than picking winners, policy created the conditions under which winners could evolve.*

5.7. Metrics

Economic Output vs. Human Outcomes

Neoliberal Consensus: GDP Is the Core Metric to Judge Economic Performance

As the adage goes, we manage what we measure. So economic paradigms also have metrics that are developed to reflect both the values and the scientific foundations of the paradigm, telling us what is good, bad, better, or worse performance in the system. These metrics then provide critical guidance for policymakers and politicians.

As we've seen, the neoliberal consensus is built on the values of maximizing pleasure through consumption, equates market price and value, and defines prosperity as output. Given this, it is not surprising that gross domestic product (GDP) has developed as the lodestar of neoliberalism. GDP is the total market value of goods and services produced within a country's borders. In this view, economic progress is measured by the rate of GDP growth, and policies are judged by their impact on this single metric.

This focus on GDP has its roots in the post-World War II period, when national accounting systems were developed to measure production of tanks, airplanes, and so on. These systems proved valuable for wartime planning but were never intended to be comprehensive measures of societal well-being.

As economist Diane Coyle explains:

"GDP is not a measure of welfare. It—notoriously—counts the ... 'bads' as a positive. ... So too the rebuilding of bridges and homes after a storm like Katrina or Sandy, or floods. GDP measures output; it does not measure well-being."[126]

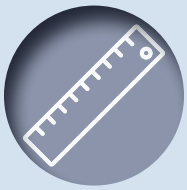
The neoliberal consensus is built on the values of maximizing pleasure through consumption, equates market price and value, and defines prosperity as output. Given this, it is not surprising that gross domestic product (GDP) has developed as the lodestar of neoliberalism.

> *"The Gross National Product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country. It measures everything, in short, except that which makes life worthwhile."*[127]
>
> —Robert F. Kennedy, 1968

In the framework of Market Humanism, GDP fails to distinguish between activities that solve problems and activities that create problems.

GDP also has other well-known problems; for example, it does not count unpaid labor (again often care work done by women), does not deal with environmental costs, and has a problem measuring technological progress.[128] For example, when internet-based video calling was invented (e.g., Skype, FaceTime, Zoom), it showed up as a negative in the GDP calculations because, at market prices, the service was free or very low cost versus the more costly telephone services it was replacing. Yet, it was clearly value-creating—a better solution to our problem of communicating.

Despite these limitations, GDP has become the primary metric by which economic performance is judged. Policies that increase GDP are considered successful, regardless of their impact on other dimensions of well-being or whether or not they are truly creating value.



Measurability Bias

The desire for measurement creates a bias towards policies, programs, and strategies that are easy to measure. And, many times, there is in inverse relationship between measurability and importance. In other words, the things that are most important tend to be the things that are hardest to measure.

Some of the very most important things for human well-being (e.g. social connection, mental health) are hard to quantify, and value.

Market Humanist View: Measure Well-Being, Standards of Living, and Solutions to Human Problems

As discussed, Market Humanism defines prosperity in terms of *outcomes*—solving problems that people face in ways that make their lives better and increase their well-being. For example, better food and nutrition, more comfortable housing, better healthcare, greater physical and economic security, better access to information, more fun entertainment, and so on. As we have said, under this view, prosperity isn't money or GDP. It is the *accumulation of solutions to human problems*. Economic progress means solving more problems than we create and ensuring that these solutions are accessible to as many people as possible. *Growth* in real prosperity is best understood as the *rate* at which we evolve new and better solutions to human problems.

The question, then, is whether we can measure prosperity in this way. The answer is yes, we can measure well-being, standards of living, and solutions to human problems much more directly than what is captured in GDP and other national accounts metrics. These new metrics tend to be dashboards, looking at economic performance from multiple angles—but we shouldn't expect economic health to be captured by a single metric, any more than we would expect a doctor to measure our physical health exclusively with the single number of our temperature.

There is now a small industry of alternative, multi-dimensional measurement systems. Examples include the UN Human Development Index, OECD Better Life Index, World Happiness Report, Bhutan's Gross National Happiness, New Zealand's Wellbeing Bud-

get, the U.K.'s Measuring National Wellbeing program, Canada's Index of Wellbeing, the Oxford Multidimensional Poverty Index, and the SAGE framework. And the Genuine Progress Indicator (GPI) explicitly measures problem solving versus problem creating, adjusting output to include positive activities (e.g., care work that may be unpaid) and subtracting negative activities (e.g., pollution, crime).

Each of these has its strengths and weaknesses, none have knocked GDP off its perch, and more work needs to be done, but these examples show that it is possible to measure people's well-being and quality of life in more direct and multidimensional ways.

Real-world example: *the OECD Better Life Index.* *The OECD Better Life Index (BLI) is a multidimensional framework for assessing well-being that goes beyond GDP to capture the quality of life across societies. It measures performance across 11 key dimensions—including income, jobs, housing, health, education, environment, civic engagement, safety, work–life balance, and life satisfaction—using comparable data across OECD and partner countries. By integrating social, economic, and environmental indicators, the BLI provides policymakers with a broader picture of people's lived experiences and well-being outcomes, supporting more inclusive and sustainable policy design.*

The way to distinguish between value-creating versus value-destroying regulation is to ask whether it increases trust and cooperation, constrains problem-creating behavior, or better aligns market and societal interests.

5.8. Markets and States

Opponents vs. Ecology of Institutions

Neoliberal Consensus: Government as an Opposing Force to Markets

The neoliberal consensus generally positions states and markets as opposing forces, inherently antagonistic to each other. States are commonly portrayed as bureaucratic, inefficient, and detrimental to the inherent efficiency and dynamism of markets. Nobel laureate Milton Friedman famously articulated this oppositional stance: "[G]overnment is doing so many things it ought not to be doing, it performs the functions it ought to be performing badly."[129]

James Buchanan, another influential neoliberal economist and the founder of public choice theory, further entrenched the view of government as inherently self-interested and inefficient. From this viewpoint, the state's role should be strictly limited to maintaining property rights, enforcing contracts, and correcting only the most obvious market failures.[130] Any expansion of state responsibilities is presumed to inherently diminish economic freedom, distort market signals, reduce consumer welfare, and weaken incentives for private sector innovation and efficiency.

If there were any truth to the libertarian fantasy of a stateless paradise, then somewhere on Earth, someone would have created one. In fact, all of the stable, prosperous countries in the world have robust states working in cooperation with vibrant markets.

Market Humanist View: Markets and States Are Symbiotic and Coevolutionary

Market Humanism fundamentally reframes the relationship between markets and states, describing them as symbiotic and coevolutionary rather than oppositional. Markets are understood as social constructions, fundamentally dependent on a robust set of state-provided institutions, infrastructure, and legal frameworks. While markets have throughout history self-organized to a certain degree and on small scales, only states have proven able to solve collective-action problems and create the trust necessary for markets to operate on a large scale. Thus, far from being a drag on markets, effective states are essential for creating the

Market Humanism Sees Three Kinds of Regulation as Value Enhancing

1. First are **laws and regulations that produce trust**, which is essential for the large-scale cooperation "with strangers" required to create significant economic value.

EXAMPLES:

- legal frameworks
- standards (e.g., weights and measures, mobile phone standards)
- consumer and worker safety regulations
- stabilizing financial systems
- monetary management
- information and transparency

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2. Second are **laws and regulations that require individuals and firms to limit and take ownership of the problems they create**. True economic value is created when we solve more problems than we create. When individuals or companies dump problems they create back onto society, it is value-destroying, and government needs to step in to constrain problem-creating behaviors.

EXAMPLES:

- limiting/cleaning up pollution
- living wage requirements (if a company's workers can't afford to live without public assistance, that is problem-creating)
- financial regulations that limit destabilizing speculation

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3. Third are **government actions that align markets with societal interests**. When markets are aligned with solving human problems, they are one of humankind's most powerful inventions, contributing to enormous increases in well-being. But when they are misaligned, they are equally powerful and can lead to socially destabilizing wealth inequalities, exploitation, and environmental destruction.

EXAMPLES:

- ending child labor (historical example)
- tax incentives for clean energy
- prescription drug price regulations

Market Humanism views markets and states as both part of a larger ecology of institutions that enable human cooperation and problem solving. Each has a role to play and solves different kinds of problems for society. Markets and private sector organizations are essential for solving certain kinds of problems, but they cannot and should not solve all of our problems.

conditions for markets to perform their societal function of evolving new and better solutions to human problems.

Market Humanism also takes a very different view of government regulation. The neoliberal consensus views all regulation as inherently efficiency-reducing unless it is addressing a clear market failure, although it also admits society may choose to undertake costly regulation for noneconomic reasons (e.g., social, health). This view has framed much of our politics, with the right seeing market failures as rare and regulatory benefits as few, while the left sees the opposite.

Market Humanism sees three kinds of regulation as value enhancing:

First are laws and regulations that produce trust. Trust is essential for the large-scale cooperation "with strangers" required to create significant economic value. Trust-creating institutions range from legal frameworks to standards (e.g., weights and measures, mobile phone standards), consumer and worker safety regulations, financial system regulation, monetary management, and regulations that provide information and create transparency.

.Second are laws and regulations that require individuals and firms to limit and take ownership of the problems they create. As we've noted, true economic value is created only when we solve more problems than we create. When individuals or companies dump problems they create back onto society, it is value-destroying, and government needs to step in to constrain problem-creating behaviors and require private actors to own the problems they create. Examples include not just classic externalities such as pollution but also minimum wage laws that require companies to pay a living wage (if a company's workers can't afford to live without food stamps and other public assistance, that is problem-creating) or financial regulations that limit destabilizing speculation.

Third are government actions that align markets with societal interests. Just as artificial intelligence has an "alignment problem" in which it is critical that the interests of AI are aligned with human interests, markets (which are another kind of collective intelligence) also have an alignment problem.[131] When markets are aligned with solving human problems, they are one of humankind's most powerful inventions, contributing to enormous increases in well-being. But when they are misaligned, they are equally powerful and can lead to socially destabilizing wealth inequalities, exploitation, and environmental destruction.

Thus, the way to distinguish between value-creating versus value-destroying regulation is to ask whether it increases trust and cooperation, constrains problem-creating behavior, or better aligns market and societal interests.

Furthermore, as economist Mariana Mazzucato points out in her book *The Entrepreneurial State*, states are not just regulators and trust and public goods infrastructure providers but active innovators too:

"Not only has government funded the riskiest research, whether applied or basic, but it has indeed often been the source of the most radical, path-breaking types of innovation. To this extent it has actively created markets, not just fixed them."[132]

Earlier economists in the classical era understood that power relations have a significant impact on economic outcomes—Adam Smith, for example, wrote about the power of aristocratic landowners and Karl Marx about the exploitative power of capitalists.

Some might view this perspective of the states and markets as coequal and coevolutionary partners in an economic ecosystem as a diminishment of the value of markets, but that is untrue. In a sense, Market Humanism's evolutionary perspective actually makes it *more* pro-market than the neoliberal consensus, because it believes in the adaptive and innovative power of markets.[133]

Market Humanism thus views markets and states as both part of a larger ecology of institutions that enable human cooperation and problem solving. Civil society also provides key institutions in this ecology, ranging from academic institutions to religious organizations, charitable organizations, and a free press. Each has a role to play and solves different kinds of problems for society. Markets and private sector organizations are essential for solving certain kinds of problems, but they cannot and should not solve all of our problems.

Like any ecosystem, the ecosystem of institutions that enables large-scale cooperation and problem solving must be in balance. Domination by any one set of institutions—whether the market, state, or others—is not healthy.

The question of market versus state, which has framed so much of our politics for a century, is the wrong question. The real question is how we create an ecosystem that maximizes cooperation to solve complex problems and generates real human progress.

Real-world example: *child labor.* *Laws that ended the practice of child labor in the U.S. in 1938 were enacted to align market interests with societal interests in protecting children and enabling them to get an education. Businesses at the time protested that without child labor, their costs would go up, they would go bankrupt, prices would go up, the economy would suffer, and adults would lose jobs too (sound familiar?). But from a market humanist perspective, this regulation changed the market criteria for what a "successful" company is (in evolutionary terms, it changed the "fitness function"), forcing companies to innovate and adapt to a workforce without children. Most companies successfully adapted (the ones that couldn't didn't deserve to stay in business), and the economy flourished as better-educated children grew up to be more productive and fulfilled adults.*[134]

5.9. Effects of Power
Limited to Pricing vs. Fundamental to Outcomes

Neoliberal Consensus: Power as Relevant Only to Pricing

Earlier economists in the Classical era understood that power relations have a significant impact on economic outcomes—Adam Smith, for example, wrote about the power of aristocratic landowners and Karl Marx about the exploitative power of capitalists.

But when economics became mathematicized in the late nineteenth through early twentieth centuries, the definition of power was narrowed to the power to set prices and the ability to extract rents through market structures or practices that reduced market competition—for example, monopolistic market structures, collusion among companies, or labor unions negotiating wages. This kind of power could be reflected in the mathematical models as reductions in market competitiveness and efficiency, resulting in welfare losses for consumers, while other kinds of power (social, political) were hard to incorporate mathematically.

These models then underpinned neoliberal consensus policies, which included anti-union policies and a

narrowing of enforcement and legal interpretations of antitrust law, to focus primarily on consumer pricing power, ignoring other forms of corporate power (e.g., Facebook's power over data, Amazon's power over suppliers, Walmart's power in a local community, Exxon's lobbying power).

This framework effectively put many, if not most, forms of economic power outside the bounds of economics. It also enabled a broad shift in power during the 1970s to 2010s away from workers, consumers, and voters and into the hands of large corporations, owners of capital, and their political lobbyists.

Market Humanist View: Power as Fundamental to Outcomes

Market Humanism recognizes power as a fundamental force shaping economic outcomes—as essential to understanding economics as gravity is to understanding physics. Power differentials determine who gets what and why, defining the very structure of economic systems. This perspective recognizes several key insights:

- **First, economic arrangements are fundamentally political arrangements.** Markets don't exist in some pre-political state of nature; they're created through laws, norms, and institutions that reflect existing power relations. Property rights, contract law, labor regulations—all embody political choices about who has power over what and whom.

- **Second, market outcomes reflect bargaining power, not just productivity.** Workers aren't paid simply according to their abstract "marginal product" but according to their ability to negotiate—which de-

Market Humanism recognizes power as a fundamental force shaping economic outcomes—as essential to understanding economics as gravity is to understanding physics.

Power Differentials Determine Who Gets What and Why

Economic Arrangements Are Fundamentally Political Arrangements

Market Outcomes Reflect Bargaining Power, Not Just Productivity

Power Begets Power

Power Echoes Through History

Power Shapes the Frameworks Through Which We Understand Economic Reality Itself

Market Humanism acknowledges that merit certainly plays a role in economic outcomes—someone who is skilled, works hard, and makes good life choices is more likely to achieve greater economic success than someone who does not. But that is not the only determinant in real economic systems.

pends not just on forces of supply and demand in their specific job market but also on macroeconomic policies (e.g., whether the Fed raises interest rates whenever wages tick up), union density, minimum wage laws, and other factors shaping their alternatives.

▶ **Third, power begets power.** Economic power translates into political power, which shapes economic rules to further concentrate economic power, creating compounding feedback loops where initial advantages compound over time. Joseph Schumpeter famously warned that this dynamic of capitalism creating wealth concentration—which leads in turn to rent-seeking, political capture, and rigging the rules of the game—would drain market economies of their dynamism and their popular support, causing their eventual downfall.[135]

▶ **Fourth, power echoes through history.** As discussed, Market Humanism recognizes that economies are path-dependent systems, and this means that the power structures of the past can continue to affect economic outcomes of today. The fact that Black people, other people of color, and women were systematically economically disadvantaged by power structures in previous eras continues to show up in outcomes today, even after laws and culture have changed. For example, economic, educational, and social capital tends to accumulate over generations—if your parents owned their own home, you are far more likely to own your own home too.[136] The fact that for 350 years, Black people were systematically excluded in America from business ownership, housing ownership, access to capital, and education echoes down the generations today in statistics such as Black families having a housing ownership rate of 45 percent versus 73 percent for non-Hispanic white households.[137]

▶ **Fifth, power shapes the frameworks through which we understand economic reality itself.** The ability to define which questions matter and which policies are "serious" represents perhaps the deepest form of power. When we acknowledge that many forms of power shape the economy, we can start to see its impact more clearly in empirical data on wage and wealth inequalities, race and gender inequalities, concentrations of corporate power, concentrations of capital ownership, and the political power to shape economic rules.[138]

As economist J. W. Mason aptly summarizes, hearkening back to the old joke about turtles holding the world up: "It's bargaining power, it's politics, all the way down."[139]

Real-world example: *tech monopolies.* *Companies such as Amazon and Meta have immense market, societal, and political power that is not recognized by neoliberal competition laws and policies.*[140]

5.10. Causes of Inequality
Meritocratic and Efficient vs. Path-Dependent and Compounding

Neoliberal Consensus: Inequality as Fair Reward for Effort and Ability

The neoliberal view tends to treat market outcomes as direct reflections of merit. In this perspective, people generally earn what they deserve based on their productivity, skills, effort, and choices. This in turn rests on an assumption that labor and other markets are efficient and process those merit-based factors to produce outcomes that are efficient as well.

While luck might play some role, the orthodox view

Perfect Equality of Opportunity Would Still Lead to Inequality

The real-world economy looks a lot like the game Monopoly, which has the three key ingredients that create inequality for reasons other than merit

First, there is a source of asymmetry that causes individual paths to diverge. The rolls of the dice determine your path through the game—whether you land on valuable Boardwalk, modest Baltic Avenue, or even Jail. In real economic life, the paths of two individuals can diverge for meritocratic reasons (one makes better decisions or works harder), but luck also plays a major role in shaping individual economic paths, beginning with the "birth lottery" of where and to whom you're born, continuing through chance encounters like having a great teacher, avoiding severe illness, or meeting a key business contact.

Second, advantage *and* disadvantage compound. In Monopoly, chance landings on valuable properties early in the game lead to collecting higher rents, which enables building houses and hotels, which generates still more rent in a powerful feedback loop. The economy works the same way—wealth compounds through investment returns, but so do other advantages: education (a good teacher leads to a good college), social networks (powerful connections introduce you to employers, which leads to better jobs).

Third, the game is path dependent. Where you can go in Monopoly depends entirely on where you are now. You can't build a hotel on Park Place if you don't already own Park Place. Similarly, in economic life, doors of opportunity open and close depending on what path you're already on—whether that's the path to Harvard or you go directly to jail.

These three features—luck, compounding, and path dependence—explain why Monopoly, if played long enough, typically results in one player accumulating almost all the money while others go bankrupt. And this happens regardless of player skill. While skill certainly matters (some players make better decisions than others), the *structure* of the game itself determines the highly unequal outcome.

What makes this insight particularly revealing is that Monopoly actually features *perfect equality of opportunity*. Everyone starts with exactly the same amount of money, the same starting position, and the same dice to roll. *Yet extreme inequality inevitably emerges due to the structure of the game, independent of the actions of the individual players*.

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assumes that over time, luck averages out across the population and market forces should reward those who create the most value.

This meritocratic view is reflected in how we talk about economic success and failure. People who are economically successful are often described as talented, hardworking, or innovative, while it is assumed those who are less successful are lacking these qualities.

The assumption is that the market efficiently sorts people based on their contributions to economic value. From this perspective, questions of equality or inequality aren't really economically relevant. What matters is making markets as efficient as possible; then the economically best distributions will automatically result. Thus, the historic rise in economic inequality in the U.S. from the 1970s to 2010s is explained away as simply the result of unstoppable market forces such as globalization and technology change, allocating resources to their most societally beneficial uses.

Market Humanist View: Inequality Emerges from the Structure of the Game

Market Humanism acknowledges that merit certainly plays a role in economic outcomes—someone who is skilled, works hard, and makes good life choices is more likely to achieve greater economic success than someone who does not. But that is not the only determinant in real economic systems.

In real-world economies, three factors—luck, compounding effects (e.g., from capital, education, social connections, and other factors), and path dependence—can cause two economic life paths to sharply diverge for reasons that have nothing to do with merit.

Perfect Equality of Opportunity Would Still Lead to Inequality

The easiest way to see how these factors can drive inequality is with an analogy to the game of Monopoly. As anyone who has played Monopoly knows, the game lives up to its name, inevitably producing one player who gets filthy rich while the rest go bankrupt. Here is why the game inevitably leads to that outcome:

First, there is a source of asymmetry that causes individual paths to diverge. The rolls of the dice determine your path through the game—whether you land on valuable Boardwalk, modest Baltic Avenue, or even Jail. In real economic life, the paths of two individuals can diverge for meritocratic reasons (one makes better decisions or works harder), but luck also plays a major role shaping individual economic paths, beginning with the "birth lottery" of where and to whom you're born, continuing through chance encounters like having a great teacher, avoiding severe illness, or meeting a key business contact.

Second, advantage *and* disadvantage compound. In Monopoly, chance landings on valuable properties early in the game lead to collecting higher rents, which enables building houses and hotels, which generates still more rent in a powerful feedback loop. The economy works the same way—wealth compounds through investment returns, but so do other advantages: education (a good teacher leads to a good college) and social networks (powerful connections introduce you to a potential employer, which leads to better jobs). In fact, work by Nobel laureate James Heckman, Flavio Cunha, and colleagues shows that

ergodic

er·go·dic

adjective

1. A process is *ergodic* if the average outcome across many runs is the same as the average outcome over time for one run. In ergodic systems, time averages and group averages match.

Examples:

Ergodic systems:	*Non-ergodic systems:*
• *Coin flips*	• *Wealth accumulation*
• *Roulette bets*	• *The game Monopoly*
• *Rolling a fair die*	• *The economy*

In non-ergodic systems, what happens to individuals over time doesn't match the group average. Risk accumulates, and history matters. Yet neoclassical economics models the economy as if it were ergodic—which it isn't.

early-life endowments and parental investments before age 18 explain over half of observed inequalities in outcomes like education, wages, and social mobility.[141]

Third, the game is path dependent. Where you can go in Monopoly depends entirely on where you are now. You can't build a hotel on Park Place if you don't already own Park Place. Similarly, in economic life, doors of opportunity open and close depending on what path you're already on—whether that's the path to Harvard or you go directly to jail.

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Understanding Non-Ergodicity

Mathematicians have a name for games like Monopoly: *non-ergodic*. To illustrate what is meant by an ergodic versus non-ergodic system, compare Monopoly with another game, rock paper scissors.

Rock paper scissors is an ergodic system. Each round is completely independent of previous rounds. Your chances of winning remain exactly 1/3, regardless of past outcomes. If you play thousands of rounds, your outcomes will converge to 1/3 wins, 1/3 losses, and 1/3 ties—the same outcomes any player would experience. Your individual experience over time (time average) matches the experience across all players at any moment (ensemble average). That is the definition of ergodicity. Neoclassical economics assumes the economy is ergodic, like rock paper scissors, where history doesn't matter. In fact, Paul Samuelson called the ergodicity assumption one of the most fundamental in economics.[142]

But as Ole Peters at the London Mathematical Laboratory has argued, the real-world economy is

Even in a hypothetical economy where everyone starts with equal resources and has equal abilities, these non-ergodic dynamics would inevitably generate extreme inequality over time.

Even in a hypothetical economy where everyone starts with equal resources and has equal abilities, these non-ergodic dynamics would inevitably generate extreme inequality over time. This explains why standard suggestions like "improving education" or "creating more equality of opportunity," while valuable in their own right, won't solve structural inequality on their own.

non-ergodic.[143,144] Early random events dramatically change future possibilities. Your past decisions and luck continuously shape what outcomes remain possible. Two players with identical skill levels can experience dramatically different trajectories based on early chance events. Imagine one person who gets a good education, has a succession of better jobs and positions, gains skills and a professional network, saves money, buys a house that goes up in value, and has a pension plan that compounds with the stock market. They end their working days in great comfort. Their economic twin with the exact same merit, however, has a health issue early in their career. They have to step out of the workforce for a period, take on debt to pay for healthcare, and even after their health returns, their career path is stunted and they can never seem to catch up, struggling to pay down their debt and accumulate savings. Their career ends just barely hanging on.

Even in a hypothetical economy where everyone starts with equal resources and has equal abilities, these non-ergodic dynamics would inevitably generate extreme inequality over time. This explains why standard suggestions like "improving education" or "creating more equality of opportunity," while valuable in their own right, won't solve structural inequality on their own. Just as sending all Monopoly players to "Monopoly School" wouldn't change the game's fundamental outcome.

And the real economy is actually far less meritocratic than Monopoly, due to vast inequalities in starting positions. But even with perfectly equal starting points, the mathematics of non-ergodic systems still produce high levels of inequality.

This perspective is supported by empirical studies and simulations. Research by physicist Bruce Boghosian and colleagues has shown that in a simple economic model with completely fair transactions and equal initial endowments, wealth inevitably concentrates in the hands of a few due solely to random fluctuations.[145]

Again, these findings don't mean that merit plays no role in economic outcomes. Skills, effort, and good decisions certainly matter. But they suggest that luck and social circumstance play a much larger role than the meritocratic neoliberal narrative acknowledges, and that extreme inequalities cannot be justified solely on the basis of different levels of merit.

This perspective has profound implications for policy. If economic outcomes are significantly shaped by luck and other non-meritocratic factors, then redistributive policies should not be cast as simply taking from the deserving to give to the undeserving. They are helping to correct for the arbitrary and often unfair distributions that naturally emerge from non-ergodic market dynamics.

Finally, as we will discuss later, these non-ergodic dynamics mean that markets on their own tend to concentrate wealth in the hands of a few, eroding and hollowing out the middle class—just as we saw in the U.S. from the 1970s onward.[146] Large, prosperous middle classes are only possible when governments actively lean against these non-ergodic, trickle-up dynamics.

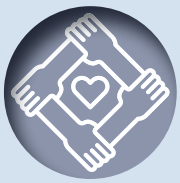
5.11. Core Principles

A foundation for inclusive, adaptive, and innovative economies

Summarizing the previous two chapters, we can take each of the elements of the new paradigm and recast them as a set of core principles for building a market humanist economy. These principles begin with morality and extend through our view of human behavior, our understanding of the economy as a system, our definition of progress, our choice of metrics, our policies, and the narratives we use to explain them.

Each principle is simple on its own, but together, they form an integrated worldview—a paradigm capable of replacing the neoliberal consensus, providing an alternative to Trumpian chaos, and becoming a new common sense for our age.

Core Principles



1. The purpose of the economy is solving problems that enable human flourishing.

Market Humanism's moral foundation is human flourishing. More specifically, the purpose of the economy is to "solve human problems," i.e., fulfilling human needs in ways that enhance individual and societal well-being.

Why it matters: *Market Humanism rejects the artificial separation between moral and economic concerns. If prosperity means solving human problems, then every economic choice has moral consequences—you're either solving problems for yourself and others or creating more problems than you solve. This integration enables us to evaluate economic activities and policies based on how well they serve human flourishing broadly, not just how efficiently they generate financial returns.*

2. Cooperation drives prosperity.

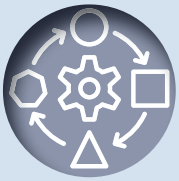
Market Humanism incorporates a modern, empirically based understanding of how humans behave and create prosperity: as cooperative, social, imaginative, adaptable problem solvers.

Why it matters: *The vast majority of economic activity is cooperative, not competitive. Our species' greatest advantage is our ability to cooperate at scale. The neoliberal consensus has privileged those who care least about others, rewarding psychopathic behavior as "rational self-interest"*[147]*—but societies with low trust and low cooperation are inevitably poor. Market Humanism recognizes that our unique human ability to cooperate at scale is what drives innovation and prosperity. We can foster innovation and growth by encouraging the best, rather than elevating the worst aspects of human behavior.*

3. Economies are complex, adaptive, and open.

Market Humanism sees the economy as a complex adaptive system, much like an ecosystem: open, evolving, path dependent, and shaped by feedback loops.

Why it matters: *Because the economy is an evolving ecology rather than a closed machine, stability isn't the inevitable outcome. Rather than closed systems moving toward stable, predictable equilibria, economies are open thermodynamic systems that continuously innovate and change while metabolizing energy, resources, and information to create ordered solutions to human problems—as well as waste, which must be managed within ecological boundaries.*



4. Markets are evolutionary innovation systems.

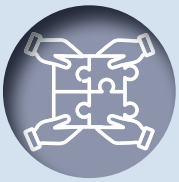
Market humanism recognizes markets as discovery processes that generate variety, test alternatives, and scale what works. That implies tolerating "inefficiencies" like redundancy and failure and having public rules/investments that align the system's "fitness function" with long-term social benefits rather than short-term extraction.

Why it matters: *Markets create value not primarily through the allocation of existing resources, but as evolutionary systems that generate new and better solutions to human problems. Society isn't more prosperous today because we more efficiently allocated stone tools over the past millennia, it is more prosperous because we innovated. Markets encourage experimentation and variety creation in products and services that solve problems, then create evolutionary competitions to see which solutions are most "fit," scaling up the fitter solutions by channeling resources at them and scaling down or eliminating the less fit.*

5. Value comes from creating solutions to human problems.

Market Humanism recognizes that value isn't necessarily whatever the price is today. Rather, value is the fitness of solutions—how well they meet human needs, avoid creating new harms, and improve well-being over time.

Why it matters: *Because value is the fitness of solutions, the point of the economy isn't financial maximization—it's problem-solving. That shift reorients incentives: We reward businesses for reducing harm, broadening access, and improving well-being over time, not for extracting the largest profits. It refocuses innovation on unmet needs and diffusion, prioritizing models that scale the best solutions. And it guides policy around regulation, investment, and market design. By centering value on problem-solving quality and diffusion (not just exchange price), we align enterprise, metrics, and policy with human flourishing.*



6. Fairness and inclusion are crucial to economic growth.

Market Humanism rejects the idea of a fundamental trade-off between economic equity and efficiency. Instead, Market Humanism sees fairness as the precondition for the large-scale cooperation that solves problems and thus creates prosperity. Economic inclusion is thus a fundamental source of growth and dynamism.

Why it matters: *The supposed trade-off between fairness and economic growth is a myth. The causal chain works in the opposite direction: fair arrangements create trust, trust enables cooperation, and cooperation is necessary to solve the complex problems that increase our shared prosperity. Societies that distribute opportunity and rewards more equitably don't sacrifice economic growth, efficiency, or productivity—they enhance it by mobilizing the full potential of their populations.*

7. Prosperity is defined by outcomes, not outputs.

Market Humanism understands that true economic progress arises not from abstract maximization of utility or GDP growth, but from the practical accumulation of effective solutions to human problems. The true test of prosperity isn't "How much did we produce?" but "Did we solve the right problems without creating bigger ones, did most people gain, and did human well-being improve?"

Why it matters: *When we judge prosperity by outcomes, we stop confusing production with progress. Rising output can coexist with stagnant health, frayed trust, clogged commutes, predatory finance, and climate risk. By centering outcomes, we can redirect innovation toward unmet needs and rewire incentives to deliver durable improvements, not externalize costs. Prosperity, in this view, is solving the problems that have the biggest impacts on well-being, making those solutions available to everyone, and avoiding the creation of new problems.*

8. Markets and states are symbiotic.

Market Humanism recognizes that states and markets are not fundamentally opponents. Instead, Market Humanism sees this relationship as a symbiotic one: Markets are essential for evolving prosperity, and states are essential to create conditions for markets to succeed in their social function.

Why it matters: *Because states and markets are cocreators of economic outcomes, a critical role of government is to set rules, make investments, and otherwise help align the "fitness landscape" of the economy with society. Prosperity arises from a partnership between vibrant markets and democratically accountable states that enable and guide the market to evolve new and better solutions to human problems.*

9. Power is fundamental to economic systems.

Market humanism sees power being as fundamental to economics as gravity is to physics—power differentials determine who gets what and why, defining the very structure of economic systems. Economic arrangements are created through laws, norms, institutions, and collective organization.

Why it matters: *While markets create prosperity through evolutionary innovation, they also endanger it by concentrating wealth and power. Power begets power, and high concentrations of power reduce the capacity and demand for innovation and distort the political system, rigging the "rules of the game" in favor of existing power. This inevitably erodes social cohesion, damaging the cooperation that creates prosperity— ultimately slowing the virtuous cycle of demand, investment, and innovation.*

10. Inequality is shaped by luck and institutional design.

Market humanism understands that persistent, high-level inequalities are not simply the result of different levels of merit, and cannot be justified solely on that basis. While merit, effort, and other individual factors do play a role in economic outcomes, inequality in income and wealth is largely a product of the structural dynamics of luck, path dependence, and the results of compounding over time.

Why it matters: *In a market economy, extreme concentrations of wealth will occur in the absence of policies aimed at moderating those concentrations, even if individual transactions are fair and people are given equality of opportunity. Without countervailing policies, markets alone will hollow out middle classes, reduce social cohesion, and endanger the trust and cooperation that make prosperity possible.*

PART VI:

NORMATIVE IMPLICATIONS FOR SOCIETY AND POLICY

How Paradigms Shape Choices

What changes when human flourishing is the goal

> "The ultimate purpose of economics is to understand and promote the enhancement of well-being."[148]
>
> —*Ben Bernanke*

		From Neoliberal Consensus	→	To Market Humanism
Values	Moral Foundations	Enjoyment Through Consumption	→	Human Flourishing
Scientific	Behavioral Theory	Homo Economicus	→	Homo Sapiens
	Economic Systems Theory	Optimizing Machines	→	Complex Ecologies
	Processes of Innovation and Change	External Shocks	→	Internal Evolution
	Theory of Value	Market Prices	→	Solving Human Problems
	Theory of Progress	Growth in Productivity	→	Growth in Human Cooperation
	Metrics	Economic Output	→	Human Outcomes
	Markets and States	Opponents	→	Ecology of Institutions
	Effects of Power	Limited to Pricing	→	Fundamental to Outcomes
	Causes of Inequality	Meritocratic and Efficient	→	Path-Dependent and Compounding

Normative

Implications for Society and Policy

Markets and Efficiency	→	**Inclusion and Flourishing**
Assumes that markets reflect merit and that there is a trade-off between equity and efficiency.		*Recognizes that market outcomes reflect power and can be inefficient and that fairness causes prosperity.*

Economic Causality

Growth is trickle-down	→	**Growth is created from the middle out**
Growth is assumed to follow from capital accumulation and supply-side efficiency.		*Understands that broad-based demand triggers investment, productivity, and innovation.*

Role of Inclusion

Moral, not economic, question	→	**Driver of growth and innovation**
Considers inclusion to be a social or moral concern—a "nice to have" rather than an economic necessity		*Understands inclusion as essential to drive demand, fuel innovation, accelerate economic growth, and deepen social cohesion*

Merit and Reward

Unequal outcomes are "just deserts" for effort and talent	→	**Social structures produce inequality**
Outcomes are presumed to match what people deserve through their talent and ability		*Acknowledges that while effort and talent matter, outcomes also reflect path dependence and structural disadvantages on the basis of race, gender, and class*

Trade Policy

Trade is a mechanism to increase efficiency	→	**Trade should aim to expand domestic knowledge networks**
Sees trade as a means to lower costs and increase efficiency, leading to greater consumption and increased prosperity		*Focuses trade policy on growing a nation's ability to build, retain, and evolve its capacity to make complex things and solve hard problems*

Market Structure

Competition is needed to lower prices	→	**Competition drives market evolution**
Excess concentration is bad if it raises prices		*Competition evolves new and better solutions to human problems*

Role of Fairness		
Fairness as trade-off *Views fairness as secondary to market efficiency and a drag on growth*	→	**Fairness as foundation** *Recognizes fairness as essential for building trust, enabling cooperation, and creating prosperity and social cohesion.*
Understanding of Progress		
Progress is measured in output per capita *Orients economic activity to maximize the total quantity of goods and services produced*	→	**Progress is measured in human flourishing** *Defines progress as the expansion of the economy's capacity to solve meaningful human problems at scale and distribute those solutions fairly and sustainably.*

Corporations	Maximize Shareholder Value	→	Serve Public Purpose
Environment	Externality	→	Embedded and Interdependent
Emblematic Policies	Center "Job Creators"	→	Center Working People
Public Narratives	Trickle Down	→	Middle Out

In the last chapter, we discussed the flawed assumptions that power the neoliberal consensus, and we explored how Market Humanism is built on new, real-world scientific foundations. In this chapter, we begin to turn our view outward, exploring how Market Humanism's understanding of how the economy works can build a more prosperous economy that works for everyone.

The core political economy framing of the neoliberal consensus is a set of "big trade-offs": between markets versus states, efficiency versus equity, and growth versus environment. Neoliberals admit there might be noneconomic reasons (e.g., social, political) for government action in the economy, for redistribution, or for constraining economic power but warn that there are "no free lunches" and such "interference" in market outcomes creates inevitable costs to efficiency, jobs, and growth. In this view, the job of economists is to assess these costs, analyze the trade-offs, and identify winners and losers ("welfare analysis" in economic jargon). It is then up to the political system to navigate the various trade-offs.

Like many stances in the neoliberal consensus, this framework assumes a textbook economy of rational actors, perfect knowledge and foresight, efficient markets, and perfect competition, none of which exists in reality.

The political economy framing of Market Humanism could not be more different. Cooperation is what enabled our species to go from scraping the ground for grubs in caves to the miracles of modern life. So, the key political economy question is *how we organize and maximize our cooperation to solve problems that increase human well-being, and how we do so in a way that is inclusive and just*.

In our paradigm stack, we had a layer on normative "Implications for Society and Policy." In this chapter, we will explore some of those implications. Then in the following chapters we will move on to discuss in more detail how Market Humanism shifts our perspectives on corporations, the environment, policy, and narratives in the chapters ahead.

Growth emerges not from capital alone but from expanding the capabilities of people to solve problems—and from including more people more fully in that process.

By contrast, the Market Humanist view centers on progress: the accumulation of effective solutions to human needs that are available to the broad population. Where growth can result from wasteful, extractive, or exploitative activity, progress requires that improvements in well-being be widely shared and environmentally sustainable.

6.1. Economic Causality

Growth from Trickle-Down vs. Growth Is Created from the Middle Out

Neoliberal Consensus: Growth Follows from Capital

Neoliberal consensus thinking has long been shaped by neoclassical economic theory, which views the economy as a system of supply and demand operating in equilibrium. In this framework, prices act as signals to efficiently allocate scarce resources, and growth is understood primarily as the result of capital accumulation as well as technological change that originates outside the system.[149] Innovation is treated as an external shock—important, but not explained by the model itself. Demand, meanwhile, is typically characterized as a passive reflection of individual preferences and incomes, rather than an active driver of innovation or structural economic change.

The neoliberal, trickle-down view posits a linear causal chain that begins with capital owners and works its way down:

1. Tax cuts for the rich → Increased capital and incentives for investment
2. More investment → Expanded production and enhanced productivity
3. Enhanced production → Expanded labor demand
4. Expanded labor demand and higher productivity → Higher wages through market competition
5. Higher wages → Broader prosperity diffused throughout society, more demand

This prosperity in turn leads to further capital for investments.

This model assumes that economic progress is fundamentally supply-driven and capital-limited. It treats innovation as exogenous and largely dependent on the decisions of a relatively small group of capital-allocating elites. Critically, it views prosperity for the broader population as a derivative outcome—the endpoint of a process that must begin with concentrating resources at the top.[150]

Keynesian economics, which revolutionized macroeconomic policy in the twentieth century, brought demand into the picture more forcefully. It demonstrated that recessions are often caused by inadequate demand and that government spending can help restore output and employment.[151] But Keynesian models typically assumed a static economic structure. They provide powerful tools for managing business cycles but offer limited insight into the deeper, long-run drivers of innovation, growth, and transformation.

Market Humanist View: Demand Triggers Investment and Innovation

Market Humanism reconceptualizes economic growth as the emergent product of *a positive feedback loop between innovation and demand*. In this view, innovation arises from the cooperative recombination of knowledge among people and institutions—an evolutionary process of trial and error, experimentation, and improvement.[152,153] Crucially, demand is not just about purchasing power—it's a *creative force*. It selects which innovations succeed, funds their development, and creates incentives for further problem solving.[154]

Rather than viewing the economy as a machine in

When consumers have purchasing power, businesses gain customers. When businesses have customers, they invest and innovate. That grows productivity and wages, which creates more purchasing power, and the cycle continues. This is how prosperity develops from the middle out, not the top down.

balance, this approach sees it as a constantly evolving, adaptive system.[155,156] Growth emerges not from capital alone but from expanding the capabilities of people to solve problems—and from including more people more fully in that process. When more people have the tools, education, freedom, and income to contribute—to be not just consumers but also innovators, entrepreneurs, and workers—they drive both the supply of new ideas and the demand that brings those ideas to life.[157]

This reframing also clarifies a deeper conceptual divide: the distinction between **growth** and **progress**. In neoclassical and Keynesian models, *growth* is typically measured by changes in output—principally GDP—regardless of whether that output solves meaningful human problems. By contrast, the market humanist view centers on *progress*: the accumulation of effective solutions to human needs which are available to the broad population. Where growth can result from

wasteful, extractive, or exploitative activity, progress requires that improvements in well-being be widely shared and environmentally sustainable. In this way, Market Humanism replaces a narrow focus on "more" with a purposeful pursuit of "better."

The market humanist, middle-out perspective proposes a more dynamic causal story centered on the broad middle of the income distribution as both a key source and key beneficiary of economic progress.

▶ As the diagram shows, growth is driven by a positive feedback loop between demand and innovation. When the broad population has high wages and purchasing power, this creates demand and business opportunity. And when most people have good wages and standards of living, this also increases social trust and cooperation.

▶ The combination of high demand and high cooperation drives innovation as entrepreneurs seek new and better solutions to human problems. This in turn feeds back to greater prosperity, and if the system shares that prosperity fairly, that further feeds back into higher wages and standards of living, driving the virtuous cycle onward.

In this view, economic development is neither purely supply-driven nor demand-driven but emerges from their continuous interaction. Innovation is not an external force but an endogenous response to human needs expressed through demand. Most importantly, the middle class is not merely a beneficiary of growth but its primary cause—when ordinary people have the resources, capabilities, and freedom to participate fully in the economy, they create the conditions for sustained innovation and inclusive prosperity.

When workers earn good wages, they become robust consumers. When consumers spend money, businesses thrive. When businesses thrive, they hire more workers.

6.2. Role of Inclusion

A Moral but Not an Economic Question vs. Driver of Growth and Innovation

Neoliberal Consensus: Inclusion as Nice to Have

In the neoliberal consensus, economic inclusion—ensuring that all members of society can fully participate in the economy—is often treated primarily as a social or moral concern rather than an economic one. The stance is that if a society is sufficiently rich, only then can it afford to invest in efforts to support those who are struggling, marginalized, or excluded, and it would do so strictly for moral reasons, not because it is good for the economy. This is another form of "trickle-down," but it also incorporates the so-called "big trade-off," in which investments to increase inclusion are said to harm efficiency and growth.

This view is reflected in policies that prioritize aggregate growth over distributional issues. The assumption is that once the economic pie is large enough, some of the benefits will eventually reach those at the margins, either through market mechanisms or government efforts. As economist Simon Kuznets hypothesized, inequality might initially increase with economic development but would naturally decline as economies mature.[158]

Market Humanist View: Inclusion as a Driver of Economic Growth

Market Humanism turns this perspective on its head. Drawing on research in economic history, development economics, and innovation studies, it argues that inclusion is not a nice-to-have to be afforded after growth but is instead a key driver of growth itself.

The economy, after all, is made out of people—as consumers, workers, savers, and innovators. And the more people we include in the economy, in all of those roles, the more economic activity we have, and the larger our networks of problem-solving personbytes. It is *excluding* people that is costly.

The logic of this position rests on several key insights:

1. **Human capabilities are the ultimate resource:** The knowledge, skills, and capabilities of people are the primary drivers of economic progress.

When people are excluded from education, employment, or entrepreneurship, their potential contributions are lost.

2. **Diversity drives innovation:** Innovation is always the product of the recombination of existing ideas in new ways. More diverse perspectives lead to more novel combinations and thus more innovation.

3. **Broader markets create more opportunities:** When more people can participate in markets as consumers, producers, and workers, there are more opportunities for specialization, exchange, and economic growth.

4. **Inclusion reduces wasteful conflict:** When people feel excluded from economic opportunity, they may engage in destructive conflict rather than productive cooperation. Inclusion reduces this waste.[159]

5. **Inclusive institutions foster investment:** When people believe they will be able to capture the returns on their investments of time, effort, and resources, they are more likely to make those investments.

Golden Rule of Economics

Include others as you would have them include you, and we all prosper together.

These insights are supported by extensive empirical evidence. Economists and Nobel laureates Daron Acemoglu and James Robinson have documented how inclusive economic and political institutions have been central to the long-term economic success of nations.[160] Research by the IMF, World Bank, and others has consistently found that more inclusive growth is also more sustainable growth.[161]

Jim Tankersley, in his history of the U.S. middle class, *The Riches of This Land*, documents how growing inclusion drove the post-war economic boom.[162] Tankersley observes how the expansion of the labor force and opportunities to include women and people of color during and after the war helped turbocharge American growth, creating both more productive capacity and a growing middle class that could afford to buy more products and services.

As discussed in the previous section, Market Humanism expresses this insight in the form of a virtuous cycle: When workers earn good wages, they become robust consumers. When consumers spend money, businesses thrive. When businesses thrive, they hire more workers. This cycle drives economic growth from the middle out, not from the top down.

This perspective changes how we think about policies to promote economic inclusion. Instead of seeing policies for inclusion as charitable concessions that might reduce economic efficiency, we should hail them as investments in future growth and prosperity. By ensuring that everyone can fully participate in the economy, we expand the pool of talent, ideas, and energy available to solve human problems.

6.3. Merit and Reward

Just Deserts vs. Social Structures

Neoliberal Consensus: People Deserve What They Earn

The neoliberal consensus embraces philosopher Robert Nozick's entitlement theory of justice, commonly referred to as the "just deserts" theory of distribution.[163] In this view, people morally deserve whatever they can earn through free and fair market exchanges, regardless of how unequal the resulting distribution might be.

This perspective is reflected in arguments against redistribution, such as "taxation is theft" or concerns about creating "dependency" among those who receive assistance. The assumption is that the market distribution is presumptively just, because it reflects the marginal productivity of each participant.

In this view, interventions to alter market outcomes are presumptively inefficient unless they can be justified

By ensuring that everyone can fully participate in the economy, we expand the pool of talent, ideas, and energy available to solve human problems.

by specific market failures. This theory doesn't just rationalize inequality—it shapes cultural attitudes. If people get what they deserve, then the poor have no one to blame but themselves. Just-deserts thinking absolves the affluent of any responsibility for the disadvantaged and blunts empathy by framing others' misfortune as earned. It legitimizes indifference to suffering and erodes the solidarity on which democratic society depends.

Market Humanist View: Path Dependence and Structural Bias Shape What You Earn

If the neoliberal view teaches that people get what they deserve, the market humanist view begins with a different premise: that markets don't just distribute income—they distribute dignity. And when we mistake economic outcomes for moral worth, we distort both.

Philosopher Michael Sandel captures this moral inversion in his book *The Tyranny of Merit*:

"[T]he more we think of ourselves as self-made and self-sufficient, the harder it is to learn gratitude and humility. And without these sentiments, it is hard to care for the common good."[164]

This logic underpins the cultural triumph of meritocracy—a system that celebrates winners while quietly shaming so-called losers. It tells the wealthy they earned everything, and the struggling that they deserve their pain. But as we have discussed, markets don't just reward virtue and hard work—they also reward initial advantages, power, timing, and luck.

Market Humanism rejects the moral fatalism of just deserts. It shows that inequality doesn't arise only because people differ in skill or effort—but also because of compounding advantage, path dependence, and structural feedback loops that reward early wins and punish early setbacks.

Mathematical Properties of Economic Inequality

Preferential Attachment

In many networks, new connections disproportionately go to nodes that already have many connections. This rich-get-richer dynamic leads to highly skewed distributions.

Winner-Take-All Markets

In markets with strong network effects or economies of scale, small initial advantages can translate into dominant market positions, leading to extreme concentrations of wealth and power.

Two-Class Dynamics

Research by physicist Victor Yakovenko has shown that economic distributions naturally divide into two classes: the bottom 90 to 95 percent, where income is derived from labor, and the top 5 to 10 percent, where income is mostly derived from capital. The top 5 to 10 percent follow a "power law," where a small number of people capture a vast proportion of resources.

Middle Classes Are Created by Deliberate Policies

The real-world mathematical dynamics of markets (i.e., their non-ergodicity) lead us to a profound insight that contradicts conventional economic wisdom: Middle classes do not emerge naturally from market forces; plutocracy does. In the absence of strong policy counterforces, markets inevitably produce the economic equivalent of a Monopoly game's end state—one player has virtually everything, and everyone else is bankrupt.

Large, inclusive middle classes are always artificial constructions. They are built deliberately—step by step, policy by policy. They are created by actively pushing against the trickle-up dynamics of the market. A healthy middle class requires specific interventions to squeeze the free market's natural tendency toward extreme inequality into something different: an inclusive shape, where the bulk of the population both creates and shares in society's prosperity.

History confirms this insight. The postwar American middle class didn't emerge spontaneously from market forces—it was the product of deliberate policies, including the wealthy paying their fair share of taxes, strong labor unions, massive public investments, regulated financial markets, and expanded access to education and housing. When these policies were dismantled under the influence of the neoliberal consensus starting in the 1970s, the middle class predictably began to shrink.

Large, inclusive middle classes are artificial constructions. The postwar American middle class didn't emerge spontaneously from market forces—it was the product of deliberate policies.

This perspective transforms how we understand both inequality and policy responses to it. Middle classes are built, not born. And maintaining them requires continuous pushback against the relentless mathematical forces that would otherwise concentrate wealth and power in the hands of the few.

If markets naturally tend toward concentration and inequality due to their mathematical properties, then policies that promote competition, limit concentration, and ensure broad-based prosperity are not just about fairness—they're about maintaining the dynamism and functionality of the market system itself.

Recall our Monopoly analogy. When a player emerges victorious after hours of play with all the money and properties, would we say they "deserved" to win based purely on superior skill? While skill certainly plays a role, lucky dice rolls and fortunate card draws can also be decisive. Unlike ergodic games, where temporary advantages don't accumulate and compound (like rock paper scissors), Monopoly's non-ergodic structure ensures that early random advantages grow exponentially over time.

Now imagine if we restart the game, but the winner from the previous game got to keep all their properties and money, while others started from scratch. The outcome would be virtually predetermined. Yet this is precisely how intergenerational wealth works in real economies. The children of the wealthy don't just get material advantages—they inherit better education, social connections, opportunities, and even psychological benefits like greater confidence and risk tolerance.[165]

The non-ergodic dynamics explained earlier aren't the only mathematical features driving inequality. Several other properties of economies further entrench these tendencies:

1. **Preferential attachment:** In many networks, new connections disproportionately go to nodes that already have many connections. This rich-get-richer dynamic leads to highly skewed distributions.
2. **Winner-take-all markets:** In markets with strong network effects or economies of scale, small initial advantages can translate into dominant market positions, leading to extreme concentrations of wealth and power.
3. **Two-class dynamics:** Research by physicist Victor Yakovenko has shown that mathematically the economy divides into two classes: the bottom 90 to 95 percent, where incomes follow a Boltzmann distribution (similar to the exchanges of energy in a gas), and an upper 5 to 10 percent, where incomes follow a power law.[166] The explanation is that the bottom 90 to 95 percent get their income from labor, and growth is additive. The top 5 to 10 percent get their income from capital, and growth is multiplicative—the rich get richer.

These mathematical properties mean that, even in a perfectly fair market with equal initial endowments and no differences in ability or effort, extreme inequality would still emerge. In other words, inequality is not caused by some moral failure—it's a mathematical certainty.

This perspective transforms how we think about redistributive policies. Instead of seeing them as disruptive interventions in an otherwise fair and efficient system, we recognize them as necessary corrections to the inherent tendency of non-ergodic markets to concentrate wealth and power in ways unrelated to merit or contribution—much as the Monopoly board has to be reset before each new game for it to remain fair and enjoyable.

It also changes how we think about broader economic policies. If markets naturally tend toward concentration and inequality due to their mathematical properties, then policies that promote competition, limit concentration, and ensure broad-based prosperity are not just about fairness—they're about maintaining the dynamism and functionality of the market system itself.

6.4. Trade Policy

Efficiency vs. Strategic Innovation

Neoliberal Consensus: Trade as Efficiency Maximization

Neoliberalism views trade primarily as a mechanism to maximize efficiency through comparative advantage. In this model, countries specialize narrowly, importing goods produced more cheaply elsewhere. The underlying logic is straightforward: Reducing production costs leads to lower consumer prices, greater consumption, and increased prosperity. This approach, however, often ignores the long-term strategic implications. It naively assumes economic growth naturally follows from market-driven efficiencies and disregards potential loss of domestic capabilities or innovation ecosystems.

Market Humanist View: Trade as Strategic Knowledge and Capability Building

Building on our previous discussion of César Hidalgo and Ricardo Hausmann's economic complexity framework, Market Humanism views trade fundamentally as a tool for nurturing innovation, knowledge networks, and economic resilience.[167] True prosperity derives not from short-term cost savings but from the complexity and sophistication of knowledge and know-how embedded in industries and institutions. And, of course, making high-value products in-country is good—for workers too.

The Market Humanist perspective sees trade policy as a strategic tool—not merely a means to reduce costs but to enhance a nation's capability for innovation, resilience, and inclusive prosperity.

Hidalgo and Hausmann emphasize that economic complexity—producing diverse, sophisticated products—drives long-term prosperity.[168] Economies grow by mastering adjacent capabilities, continually expanding their "product space."[169] Offshoring critical industries, therefore, doesn't merely affect current jobs; it limits future innovation by eroding these pathways.

Trade policies must thus strategically build and develop domestic economic complexity. This involves:

1. **Supporting strategic industries:** Safeguarding key sectors that embody substantial know-how, preventing the erosion of domestic innovation networks even if short-term costs are higher.
2. **Investing in knowledge-intensive capabilities:** Actively promoting education, workforce development, and innovation infrastructure that expand complex domestic industries.
3. **Complexity-aware trade agreements:** Structuring trade agreements explicitly to maintain and enhance domestic innovation ecosystems, preventing unilateral extraction of critical know-how.
4. **Resilient supply chains:** Ensuring diversity and redundancy in critical

supply chains, mitigating risks associated with geopolitical instability or disruptions.

5. **Sustainability and fairness:** Integrating stringent environmental and labor standards in trade agreements to maintain long-term productivity and societal trust.

Ultimately, the market humanist perspective sees trade policy as a strategic tool—not merely a means to reduce costs, but to enhance a nation's capability for innovation, resilience, and inclusive prosperity.

6.5. Market Structure

Lower Prices vs. Market Evolution

Neoliberal Consensus: Competition Is Needed to Lower Prices

Neoliberalism sees a trade-off between competition and corporate consolidation. On the one hand, competition helps keep prices low and innovation high. But on the other hand, it sees corporate consolidation as a natural and beneficial outcome of market competition. From this perspective, larger firms emerge because they are more efficient, achieve economies of scale, and can deliver products and services at lower costs. Mergers and acquisitions are seen as rational responses to market pressures that can ultimately benefit consumers through increased efficiency.

Neoliberalism further describes market concentration as largely self-correcting. If dominant firms extract excessive profits or provide inferior products, new competitors will naturally emerge to challenge them. Government intervention through antitrust enforcement is therefore viewed with skepticism—seen as unnecessary at best and counterproductive at worst.

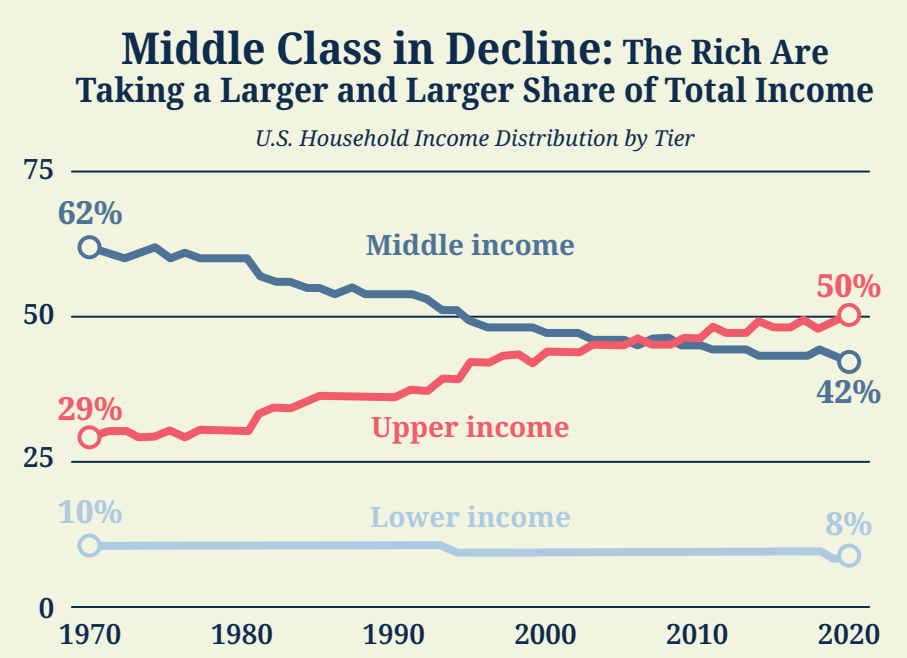
As legal scholar Robert Bork influentially argued in *The Antitrust Paradox*: "The only legitimate goal of American antitrust law is the maximization of consumer welfare."[170]

Drawing on Bork's argument and the belief that larger firms were more efficient, Reagan's Attorney General William French Smith justified a softer approach to antitrust enforcement in part by arguing that "We must recognize that bigness in business does not necessarily mean badness, and that success should not automatically be suspect."[171]

Under this framework, antitrust analysis focuses narrowly on short-term consumer price effects, rather than broader structural impacts. If a merger doesn't raise consumer prices in the short term, it's considered benign, regardless of its effects on workers, suppliers, innovation, or democratic institutions.

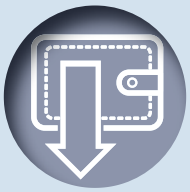
Market Humanist View: Competition Drives Market Evolution

Market Humanism recognizes extreme corporate consolidation as a fundamental threat to economic dynamism. While acknowledging that many economies of scale are real and beneficial, this perspective also identifies numerous harms from excessive market concentration that neoliberalism systematically overlooks or undervalues.



Source: Reproduced from Pew Research Center's analysis of the Current Population Survey, Annual Social and Economic Supplement (IPUMS). Note: Households are assigned to income tiers based on their size-adjusted income in the calendar year prior to the survey year. Their unadjusted incomes are then totaled to compute the share of U.S. aggregate household income held by each income tier. Shares may not add to 100% due to rounding.

Extreme Corporate Consolidation Is a Threat to Economic Dynamism



Lower Wages

Fewer employers dominating a labor market has significantly contributed to wage stagnation.

Higher Prices

Market concentration allows firms to raise prices without corresponding improvements in quality.

Declining Innovation

Concentrated markets don't lead to innovation but to protection of existing revenue streams.

Increased Corruption

Extreme concentration transforms economic power into political power, creating a self-reinforcing cycle of influence.

Systemic Vulnerabilities

When a handful of firms control critical economic functions, failures at these firms can cascade through the entire economy.

1. **Lower wages:** Concentrated markets shift bargaining power away from workers, suppressing wages even as productivity rises.[172] When a few employers dominate a labor market, workers lose options and leverage.[173] Studies show that increasing employer concentration has significantly contributed to wage stagnation across multiple industries.[174]
2. **Higher prices:** Market concentration allows firms to raise prices without corresponding improvements in quality. Industries from healthcare to agriculture have seen price increases far outpacing inflation as markets have become more concentrated, contradicting the efficiency claims of consolidation proponents.[175]
3. **Declining innovation:** Innovation suffers in highly concentrated markets.[176] Contrary to claims that larger firms innovate more effectively, evidence suggests that monopolistic and oligopolistic market structures often lead to reduced R&D investment, incremental rather than disruptive innovation, and defensive rather than creative strategies.[177] Dominant firms frequently use their position not to create new value but to protect existing revenue streams through predatory acquisitions, patent thicketing, and regulatory capture.
4. **Increased corruption:** Extreme concentration transforms economic power into political power, creating a self-reinforcing cycle of influence. As firms grow larger, their ability to shape regulations, tax policies, and political outcomes grows proportionately, undermining democratic governance and further entrenching their dominance.[178]
5. **Systemic vulnerabilities:** When a handful of firms control critical economic functions—from food production to internet services—failures at these firms can cascade through the entire economy, as demonstrated during the COVID-19 pandemic.[179]

The market humanist approach to antitrust therefore goes beyond consumer prices to consider the full range of ways market structure affects human welfare—including impacts on innovation, wages, small business formation, community vitality, and democratic governance. It recognizes that robust competition is not a luxury but a necessity for markets to serve their proper function as evolutionary engines of problem-solving innovation.

Legal scholar and former Federal Trade Commission Chair Lina Khan has argued that "focusing on consumer welfare disregards the host of other ways that excessive concentration can harm us—enabling firms to squeeze suppliers and producers, endangering system stability (for instance, by allowing companies to become too big to fail), or undermining media diversity, to name a few. Protecting this range of interests requires an approach to antitrust that focuses on the neutrality of the competitive process and the openness of market structures."[180]

This perspective demands a revival and updating of antitrust policy and enforcement—not as an intrusion into markets, but as a vital safeguard of their proper functioning.

The market humanist approach to antitrust therefore goes beyond consumer prices to consider the full range of ways market structure affects human welfare—including impacts on innovation, wages, small business formation, community vitality, and democratic governance. It recognizes that robust competition is not a luxury but a necessity for markets to serve their proper function as evolutionary engines of problem-solving innovation.

6.6. Role of Fairness

Fairness as Trade-Off vs. Fairness as Foundation

Neoliberal Consensus: The "Big Tradeoff" of Equality Versus Efficiency

Neoliberal economics makes the argument that because markets are efficient, the distributive outcomes they produce must also be efficient—whatever outcome they produce is the economically optimal allocation of resources for society. Given this, any policies that change market outcomes by redistributing resources (e.g,, through taxes or social welfare programs) inevitably reduce efficiency by interfering with market mechanisms and distorting incentives.

Economist Arthur Okun formalized this idea in his influential 1975 book, *Equality and Efficiency: The Big Tradeoff*, arguing that "we can't have our cake of market efficiency and share it equally."[181] According to Okun, any redistribution that changes market outcomes is a "leaky bucket" where administrative costs and reduced incentives cause inevitable losses in efficiency, which in turn means losses in overall economic welfare for society.

Okun himself wasn't against redistribution, either through progressive taxes or welfare programs, and the orthodox view doesn't necessarily reject all concern for equity. But it argues that the economic costs needed to be weighed against social justice concerns. This "big trade-off" then framed politics for decades, pitting those on the left arguing for moral and social justice against those on the right arguing for economic efficiency, jobs, and growth. Not surprisingly, the jobs and growth argument usually won.

Market Humanism rejects the idea of a fundamental trade-off between economic equity and efficiency. Instead, Market Humanism sees fairness as the precondition for the large-scale cooperation that solves problems and thus creates prosperity. Including more people fairly in the economy is a fundamental source of growth and dynamism.

Market Humanist View: Fairness Is Essential to Prosperity

Market Humanism rejects this trade-off between efficiency and equity. It argues instead that *fairness is not just a moral value, but an essential driver of economic prosperity*. It is important to note that fairness does not imply equality of outcomes, but instead, it implies equity in how the economy is run—whether it is a "fair game." For example, it emphasizes the necessity that people are included, equipped with the capabilities to participate successfully, rules are applied equally to everyone, people have agency over their economic lives, merit is rewarded, there is security against bad luck, and so on.[182]

This perspective recognizes several key insights:

▶ **Prosperity is created by cooperation and problem solving:** As discussed, prosperity is not a result of atomistic individuals, but of human prosociality enabling us to cooperate on a large scale and solve complex problems.

▶ **Cooperation requires trust:** Economic activity depends on trust between participants. Without trust, transaction costs rise and cooperation breaks down. Low-trust societies can only solve low-complexity, low-value problems, while high-trust societies can solve more complex, higher-value problems.

▶ **Trust requires fairness:** People have evolved strong intuitions about fairness and reciprocity. When economic arrangements are perceived as unfair, trust erodes and cooperation becomes more difficult and costly.

▶ **Fairness perceptions are contextual:** What counts as "fair" varies across cultures and contexts, but there are core concepts of fairness that are common across cultures (e.g., reciprocity, merit, agency) that strongly shape economic behaviors.

▶ **Extreme inequality undermines trust and cooperation:** When inequality becomes too extreme, it erodes social trust and cohesion, leading to decreased economic performance and increased social conflict.

These insights are supported by a wealth of empirical evidence. Studies by economists like Joseph Stiglitz, Thomas Piketty, and Emmanuel Saez have shown that extreme inequality is associated with lower economic growth, increased financial instability, and decreased social mobility.[183]

Research by organizations like the IMF and OECD has similarly found that excessive inequality can undermine economic performance. As a 2015 IMF report concluded:

"We find that the income distribution itself matters for growth as well. Specifically, if the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down."[184]

The same IMF study also found that redistributive policies did not have the negative effects on growth promoted by the neoliberal consensus. This evidence suggests that economic performance does not demand a stark trade-off between efficiency and equity. Instead, by fostering trust, cooperation, and social cohesion, policies that promote fairness and reduce extreme

inequality can enhance economic performance.

This doesn't mean that all redistributive policies are growth-enhancing, or that there are no trade-offs at all. But it does mean that the simplistic view of a permanent, unavoidable trade-off between efficiency and equity is not supported by the evidence.

The societal trust and large-scale cooperation that prosperity depends on can only be built and maintained if economic arrangements and social contracts are fair.

6.7. Understanding Progress

Growth vs. Human Flourishing

Neoliberal Consensus: Progress Is Measured in Growth in Output per Capita

The neoliberal consensus measures economic progress primarily by growth in GDP per capita. In this view, the primary goal of economic policy is to maximize the total quantity of goods and services produced, averaged over the whole population, with distributional concerns treated as secondary or even irrelevant.

As economist Robert Lucas famously put it:

"Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution ... The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production."[185]

This focus on aggregate growth has led to policies that prioritize increasing total output even when the benefits flow primarily to those who are already wealthy.

Market Humanist View: Progress Is Measured in Human Flourishing

Market Humanism takes a broader view of economic success. As discussed, it recognizes that the ultimate goal of economic activity is not merely to produce more stuff but to enhance human flourishing—to enable people to lead fulfilling, dignified lives.

This perspective draws on the capabilities approach developed by Amartya Sen and Martha Nussbaum, which defines development in terms of expanding the substantive freedoms that people have to lead the kinds of lives they want to live.[186] These freedoms include not just material prosperity but also health, education, political voice, environmental quality, and social connection.

Economic policy should aim not just to increase aggregate output but to ensure that:

1. **The economy solves the right problems:** Economic activity should address the most pressing human needs and challenges, not just those of the wealthy or powerful.
2. **The benefits are broadly shared:** Economic progress should enhance the capabilities and freedoms of all members of society, not just a privileged few.
3. **The costs are fairly distributed:** The burdens and risks of economic activity should not fall disproportionately on the vulnerable or on future generations.
4. **The system is sustainable:** Economic activity should operate within planetary boundaries and preserve essential natural systems.

This broader conception of economic success doesn't reject the importance of growth; it redefines "growth" not as simply "more stuff" but as progress in improving people's lives. It recognizes that growth is a means to an end—the expansion of human capabilities—not an end in itself. And it acknowledges that not all forms of growth are equally valuable. Growth that primarily benefits the already wealthy, that depletes natural capital, or that undermines social cohesion may not be worth pursuing.

As economist Kate Raworth puts it in her book, *Doughnut Economics*:

"The twenty-first-century task is clear: to create economies that promote human prosperity in a flourishing human web of life so that we can thrive in balance."[187]

This is exactly what Market Humanism calls for—a new economic story that places human flourishing at the center of economic thinking and policy.

PART VII:

THE CORPORATE ROLE IN A MARKET HUMANIST ECONOMY

Reclaiming Purpose

How business can serve society without sacrificing dynamism or innovation

> "Corporations are economic entities, to be sure, but they are also social institutions that must justify their existence by their overall contribution to society."[188]
>
> —*Henry Mintzberg, Robert Simons, and Kunal Basu*

	From Neoliberal Consensus		To Market Humanism
Values	Moral foundations	Enjoyment Through Consumption →	Human Flourishing
Scientific	Behavioral Theory	Homo Economicus →	Homo Sapiens
	Economic Systems Theory	Optimizing Machines →	Complex Ecologies
	Processes of Innovation and Change	External Shocks →	Internal Evolution
	Theory of Value	Market Prices →	Solving Human Problems
	Theory of Progress	Growth in Productivity →	Growth in Human Cooperation
	Metrics	Economic Output →	Human Outcomes
	Markets and States	Opponents →	Ecology of Institutions
	Effects of Power	Limited to Pricing →	Fundamental to Outcomes
	Causes of Inequality	Meritocratic and Efficient →	Path-Dependent and Compounding
	Implications for Society and Policy	Markets and Efficiency →	Inclusion and Flourishing
Normative	**Corporations**		
	Maximize Shareholder Value → *The only duty of business is to maximize returns for shareholders.*		**Serve Public Purpose** *The duty of business is to solve human problems in a fair and sustainable way; profit is the reward for doing that.*
	Environment	Externality →	Embedded and Interdependent
	Emblematic Policies	Center "Job Creators" →	Center Working People
	Public Narratives	Trickle Down →	Middle Out

In a modern market economy, corporations are among the most powerful institutions, shaping not just the economy, but our society, politics, culture, and quality of life. How they are governed, operate, and what standards they are held to, are thus of enormous consequence to everyone. Market Humanism is inherently pro-business—when businesses are well governed with the right laws, norms, and incentives, they play a vital role in organizing cooperation on a large scale, innovating, solving complex problems, and improving our quality of life in real tangible ways. But under the neoliberal consensus, we have legitimized greed, normalized extraction, and concentrated wealth and power in the hands of a few. How we define corporate purpose and shape corporate behaviors is a choice and it is time to choose differently.

7.1. Corporations Exist to Serve Society

Charters Granted for Public Purpose

The legal form of a corporation is itself an argument for business's inherent social responsibility. A corporation is not a natural entity with inherent rights but an "artificial person" granted existence through a charter from the state. As U.S. Supreme Court Associate Justice Byron White explained in 1978:

"Corporations are artificial entities created by law for the purpose of furthering certain economic goals. ... States have provided corporations with such attributes in order to increase their economic viability, and thus strengthen the economy generally."[189]

A corporate charter represents both a legal and social contract. The state grants corporations extraordinary privileges—particularly limited liability, which

shields owners from personal responsibility for corporate debts and misdeeds—in exchange for the expectation that they will serve a broader social purpose beyond enriching their owners.

A corporation failing to honor this social contract has no inherent right to exist. States regularly dissolve corporations, commonly through bankruptcy proceedings, but also can seize or dissolve them for egregious violations of the law. The state brings corporations into existence and can take them out.

This reality—that corporations legally exist to serve public purposes—underpins the idea that corporations have duties to society. Yet, over the past half-century, this understanding has been systematically eroded by an alternative vision that has significantly narrowed corporate purpose.

7.2. The Purpose of the Corporation

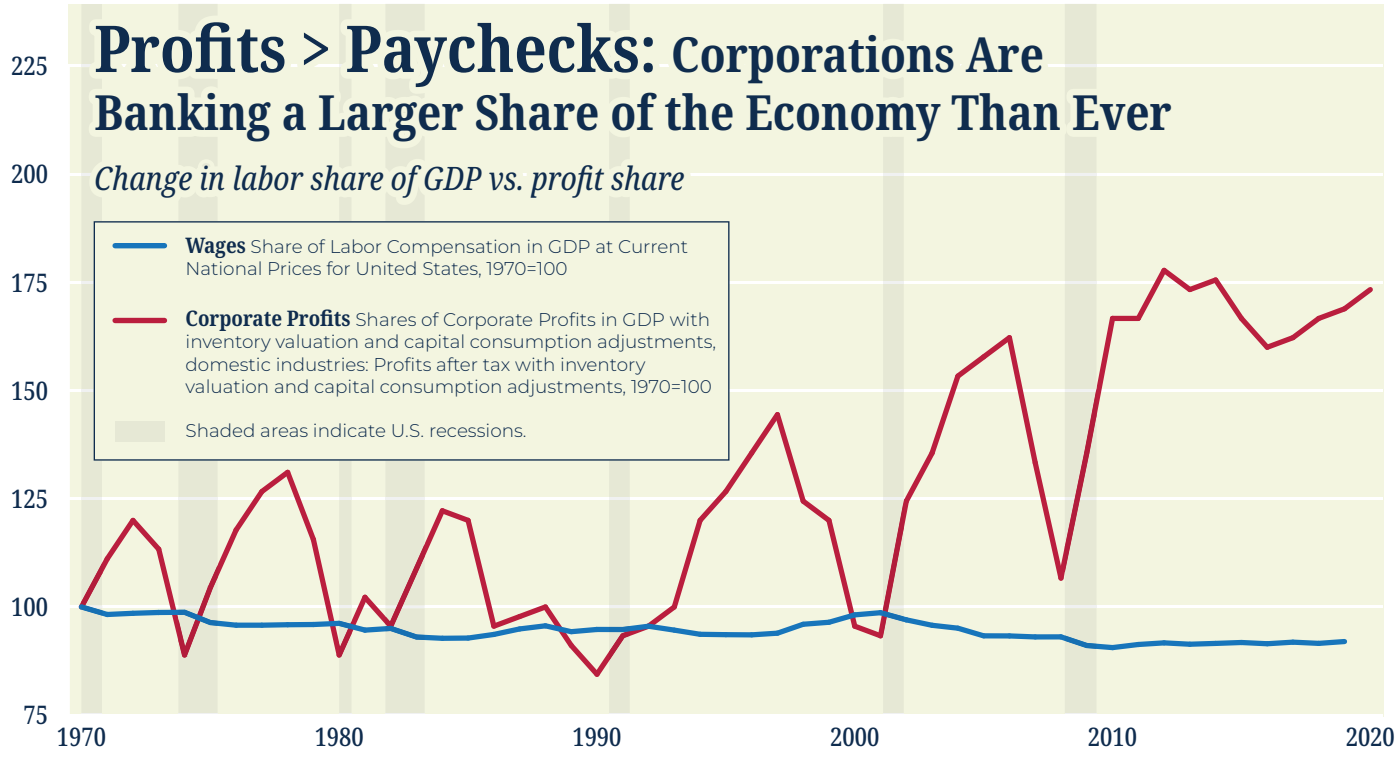
Profit Maximization vs. Problem-Solving

Neoliberal Consensus: Corporations Exist to Maximize Shareholder Value

For decades, a single dogma has dominated thinking about corporate purpose: Milton Friedman's insistence that "the social responsibility of business is to increase its profits." This Friedman doctrine, a core axiom of the neoliberal consensus that was articulated in his influential 1970 *New York Times* essay,[190] has defined modern capitalism and justified many of its worst excesses.

Friedman wasn't merely suggesting businesses should pursue profits. He made the more radical claim that there is *no* social responsibility of business whatsoever beyond profit maximization, that executives acting in society's interest in other ways are behaving harmfully, and that corporate social responsibility itself is "pure and unadulterated socialism."[191] This doctrine became the foundation for "shareholder value maximization" (SVM)—the idea that a corporation's sole purpose is to enrich its shareholders. (This, of course, includes lobbying to change the rules of the economy so that corporations earn even more profit.)

The consequences have been profound. When Nirmal Mulye, CEO of drugmaker Nostrum Laboratories, quadrupled the price of a critical antibiotic to $2,000 per bottle, arguing, "I think it is a moral requirement to make money when you can," in order to reward shareholders, he was channeling the Friedman doctrine.[192] When corporations spend billions influencing lawmakers and elections, it is the Friedman doctrine that



Sources: Reproduced from U.S. Bureau of Economic Analysis; University of California, Davis; University of Groningen via FRED®.

justifies corrupting democracy to maximize profits.

This view of corporate responsibility was not always the norm. A perfect example of the traditional American corporate purpose is Johnson & Johnson's credo (seen below), first written in 1943. In it, the company commits to serving first its customers, second its employees, third its broader community and the world, and fourth and finally its stockholders.

It is a very long way from this credo to "the social responsibility of business is to increase its profits."[193] But such is the neoliberal consensus.

Market Humanist View: Corporations Exist to Solve Human Problems

Market Humanism offers a fundamentally different understanding of corporate purpose: If economic prosperity is created by solving human problems and making those solutions available to people in goods and services, then **the social responsibility of business is to solve human problems in fair and sustainable ways.**

This contrast with the Friedman doctrine reframes the entire corporate mission. Under this definition, profits follow *from* successful problem-solving but are not themselves the purpose. However profitable an enterprise may be, if it creates more problems than it solves, it cannot claim to be creating real economic value. Furthermore, we would argue that the greater one's power and wealth, the greater one's responsibility. So it makes sense to hold large, powerful companies to higher standards for their impact on workers, their communities, and the environment, than small businesses.

This is not anti-business or anti-profit. Rather, it aligns corporate purpose with increasing well-being and the interests of society.

Johnson & Johnson Credo

"We believe our first responsibility is to the patients, doctors and nurses, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to provide value, reduce our costs and maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our business partners must have an opportunity to make a fair profit.

We are responsible to our employees who work with us throughout the world. We must provide an inclusive work environment where each person must be considered as an individual. We must respect their diversity and dignity and recognize their merit. They must have a sense of security, fulfillment and purpose in their jobs. Compensation must be fair and adequate and working conditions clean, orderly and safe. We must support the health and well-being of our employees and help them fulfill their family and other personal responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide highly capable leaders and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must help people be healthier by supporting better access and care in more places around the world. We must be good citizens—support good works and charities, better health and education, and bear our fair share of taxes. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed, investments made for the future and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return."[198]

The market humanist framework sees corporations as problem-solving entities that create prosperity when they solve problems fairly and sustainably. This changes the objectives of corporate governance:

1. **Problem-solving over profit-seeking:** Profit is not the purpose but a necessary function—just as eating is not the purpose of human life but a necessary function to sustain it.
2. **Stakeholder value, not just shareholder value:** Corporations must serve all stakeholders—employees, customers, communities, the environment, and shareholders—because sustainable value creation depends on all of these stakeholders.
3. **Long-term orientation:** Real problem-solving requires patient capital and long-term thinking, not quarterly profit maximization.

7.3. Competing Narratives About Human Nature

Two Visions of Corporate Purpose

The contrasting views of corporate purpose reflect profoundly different stories about human nature itself:

The Shareholder Value Maximization Story: Humans are fundamentally selfish utility maximizers. The magic of efficient markets transforms individual selfishness into social prosperity. Under this logic, greed becomes good and inequality efficient, and the corporation's sole purpose must be to maximize shareholder profits. Any other purpose would be inefficient and ultimately harmful.

The Problem-Solving Story: Humans are highly prosocial, reciprocal, and intuitively moral creatures whose success stems from our unique ability to cooperate at scale. If cooperation, not selfishness, is the primary source of our collective prosperity, then economic justice, fairness, and inclusion are the causes of prosperity, not merely its consequences. The corporation's purpose is to solve human problems in fair and sustainable ways.

We cannot be naïve, however. While humans are fundamentally more prosocial than the traditional Homo economicus model purports, individuals can still behave in highly antisocial ways. Research indicates that approximately 7 to 8 percent of men in the general population meet clinical thresholds for high psychopathic traits,[194] and *Fortune*-cited studies find that up to 12 percent of corporate senior leadership exhibit similar characteristics.[195] In a culture dominated by the Friedman doctrine, these individuals often rise in organizations precisely because they are willing to ruthlessly pursue narrow goals like profit maximization at the expense of broader human concerns.

Competing Narratives About Human Nature

The Shareholder Value Maximization Story

The Shareholder Value Maximization Story maintains that humans are fundamentally selfish utility maximizers and selfishness itself must be the primary cause of prosperity.

VS.

The Problem Solving Story

The Problem Solving Story suggests an alternative: humans are highly prosocial, reciprocal, and intuitively moral creatures whose success stems from our unique ability to cooperate at scale.

Changing the Purpose of the Corporation

Market Humanism changes the way we understand the purpose of the corporation.

Neoliberal consensus:
Maximize Shareholder Value
The only duty of business is to maximize returns for shareholders.

→

Market Humanism:
Solve Human Problems
The duty of business is to solve human problems in a fair and sustainable way; profit is the reward for doing that.

The Friedman doctrine effectively legitimizes and rewards these tendencies, creating a selection process that elevates those least constrained by prosocial impulses. A market humanist framework doesn't eliminate antisocial impulses or people, but it does establish robust regulations, transparent standards, and cultural norms that constrain the worst tendencies of such people and prevent them from triggering a broader race to the bottom.

We do not believe that establishing a more prosocial purpose for the corporation will eliminate bad behavior and bad actors. There will always be those who seek to advantage themselves at the cost to others without compunction or restraint. Our purpose here is to shift the balance—to make it easier and more socially and economically rewarding to be prosocial and economically and socially harder to be antisocial.

7.4 Reforming Corporate Governance
How to Realign Corporations with Society

Two scholars who have looked extensively at how we can realign corporations with the interests of society are Colin Mayer of Oxford's Saïd Business School and Rebecca Henderson at Harvard Business School. Mayer, in his 2018 book *Prosperity*, argues that the root problem is the legal and institutional framing of the firm around shareholder primacy and short-term financial reporting (in other words, the Friedman doctrine).[196] He proposes a redesign of the formal legal and financial architecture of the firm that would require changes in both law and practice.

Humans are highly prosocial, reciprocal, and intuitively moral creatures whose extraordinary success stems from our unique ability to cooperate at scale.

Henderson, in her 2020 book *Reimagining Capitalism in a World on Fire*, emphasizes that firms should be required to have explicit long-term missions or purposes that align their activities with their full set of stakeholders and the broader interests of society.[197] Companies must then align strategies, incentives, performance metrics, and company culture to drive that mission from the board level, through the senior executive ranks, and into the operations of the firm.

We can combine Mayer and Henderson's proposals into a practical set of actions for how corporate governance, legal frameworks, and practices need to change to realize this vision:

1. Corporate Purpose and Legal Framework

- Embed a clear, *publicly registered corporate purpose* in the company's constitution.
- Advocate amendments to company law and director fiduciary duties to include responsibility for *long-term pursuit of the purpose and stakeholder-based value creation*, not just short-term shareholder returns.
- Adopt governance structures that make purpose review a recurring board agenda item.

2. Measurement, Accounting, and Reporting

- Develop metrics linking strategy and performance to long-term societal value (environmental, human, and social capital)—to problem-solving, not problem-creating.

▶ Integrate *nonfinancial reporting*—e.g., sustainability, human capital, and innovation measures—into mainstream accounts.

▶ Support reforms to accounting and tax rules so that long-term and intangible investments are recognized and rewarded.

▶ Publish transparent, purpose-aligned impact reports alongside financial statements.

3. Incentives and Stewardship

▶ Align executive pay and performance metrics with purpose, sustainability, and long-term outcomes.

▶ Work with investors to adopt stewardship codes that prioritize long-term value over short-term trading.

▶ Promote tax and capital market incentives for long-term shareholding.

▶ Engage actively with purpose-aligned investors and proxy advisors.

4. Stakeholder and Internal Governance

▶ Strengthen stakeholder voice—workers, communities, suppliers—through advisory councils, board representation, or structured consultation.

▶ Embed stakeholder considerations into risk management, R&D, and supply chain policies.

▶ Train directors and managers on purpose-driven decision-making and stakeholder engagement.

5. Public Policy and Systemic Change

▶ Advocate for policies that make sustainable strategies viable and create a high, level playing field for companies, e.g., minimum wages, fair competition rules, environmental regulations.

▶ Collaborate with peers to create sector-wide standards for responsible production and innovation.

▶ Support reforms that rebuild trust in capitalism by addressing inequality, environmental degradation, and political capture.

This is not about so-called ESG (environmental, social, and governance) standards, which have degenerated into virtue-signaling, box-ticking publicity exercises for most companies while they go about their normal business of relentlessly maximizing short-term profits. This is about fundamentally rewiring how corporations are legally conceived, governed, and operated, to align their interests with solving problems that create real, long-term value for people and society.

7.5. Reclaiming the Corporation for Society

Business Serving the Common Good

This is also not about abandoning markets or profits. As we've said, markets are crucial evolutionary mechanisms, and profits provide essential incentives and information. Instead, it's about ensuring that the extraordinary power granted to corporations serves its intended purpose—enhancing broad-based prosperity rather than concentrating wealth and power. When corporations embrace their role as problem solvers rather than mere profit maximizers, they become hubs of innovation, opportunity, and shared prosperity rather than extractors of value from society.

The choice between these corporate visions is ultimately a choice about what kind of society we want to build. Do we want a society that celebrates and rewards the most rapacious and least empathetic among us? Or do we want one that channels our cooperative instincts toward solving the greatest challenges we face? The market humanist framework points clearly toward the latter—a vision of corporate purpose that works not just for shareholders but for humanity.

PART VIII:

CLIMATE AND ENVIRONMENT

Creating an Economy Built for Life

How transforming to a sustainable economy is both a necessity and an historic opportunity

> "The race is now on between the technoscientific forces that are destroying the living environment and those that can be harnessed to save it… If the race is won, humanity can emerge in far better condition than when it entered, and with most of the diversity of life still intact."[199]
>
> *—E.O. Wilson, The Future of Life (Prologue)*

	From Neoliberal Consensus		To Market Humanism
Values	Moral Foundations	Enjoyment Through Consumption →	Human Flourishing
Scientific	Behavioral Theory	Homo Economicus →	Homo Sapiens
	Economic Systems Theory	Optimizing Machines →	Complex Ecologies
	Processes of Innovation and Change	External Shocks →	Internal Evolution
	Theory of Value	Market Prices →	Solving Human Problems
	Theory of Progress	Growth in productivity →	Growth in Human Cooperation
	Metrics	Economic Output →	Human Outcomes
	Markets and States	Opponents →	Ecology of Institutions
	Effects of Power	Limited to Pricing →	Fundamental to Outcomes
	Causes of Inequality	Meritocratic and Efficient →	Path-Dependent and Compounding
	Implications for Society and Policy	Markets and Efficiency →	Inclusion and Flourishing
	Corporations	Maximize Shareholder Value →	Serve Public Purpose
Normative	**Environment**		
	Externality → **Embedded and Interdependent**		
	Treats the environment as external to the economy, serving as an infinite source of resources and infinite sink for waste. → *Reflects the reality that the economy is embedded in and interdependent with the environment.*		
	Emblematic Policies	Center "Job Creators" →	Center Working People
	Public Narratives	Trickle Down →	Middle Out

8.1. The Economy and the Biosphere
Fundamentally Intertwined

The goal of Market Humanism is to create an economy that supports human flourishing. But for humans to flourish, nonhumans—the other species we share this planet with—must flourish too. Market Humanism sees the "econosphere" and biosphere as fundamentally intertwined—together composing a larger planetary system.

Arguably the most consequential and dangerous failure of the neoliberal consensus is the way it has treated the environment. It has not recognized this fundamental interdependence, and the environment is portrayed as something separate from the economy—an "externality." The neoliberal consensus sees the environment as an infinite source of resources and an infinite sink for waste. The economy and environment are portrayed as at odds with each other, a big trade-off: We can *either* have growth, prosperity, and good jobs *or* a clean, sustainable environment—but not both.

This view is not only scientifically and empirically wrong; it has done planet-changing damage and threatens not just future human generations but the future of life itself.

Our economic system is not currently compatible with life on Earth. Market Humanism seeks to change that.

8.2. The Most Dangerous Nobel in History

Cost-Benefit Problem vs. Historical Transformation

Neoliberal Consensus: Climate Is a Cost-Benefit Problem Solved by Carbon Pricing

The standard economic framing of the climate problem was developed by Yale economist William Nordhaus in a series of papers starting in the early 1990s, for which he was awarded the Nobel Prize in 2018.[200] Nordhaus's framing was drawn straight from the heartland of neoclassical economic theory. He claimed that the climate problem was fundamentally a trade-off between the costs of going low carbon versus the benefits of avoiding future damage to the economy from climate change. At the time of Nordhaus's work, low-carbon technologies such as solar and wind were much more expensive than fossil fuels (something that has changed, and that we'll return to). So, if the economy is in an optimal state today (as assumed by neoclassical theory), and we shift to more expensive forms of energy, it follows that going low carbon will raise costs and slow growth—thus the big trade-off.

Nordhaus's contribution was to build a model that estimated those costs, calculated the benefits of less climate change, and found the optimal trade-off.[201] And since the costs and benefits would play out over many decades into the future, in order to weigh them up, one had to "discount" them to the present (this reflects the old adage "a dollar today is worth more than a dollar tomorrow.")

Nordhaus calculated how much those long-term costs and benefits were worth in today's dollars by applying a kind of societal interest rate. Using this societal interest rate, or discount rate, was also a way of reflecting the trade-off between investing in mitigating climate change versus other societal goals—after all, while climate change is a big problem, society faces other challenges too, such as poverty reduction, providing access to healthcare and education, and so on. If the discounted costs versus benefits of climate action are less than, say, investing in healthcare or education, then, according to Nordhaus's model, we should prioritize those other things. (Note, however, that because this framework assumes near-term dollars are worth more than long-term dollars, this creates an automatic bias toward addressing short-term issues and delaying action on long-term ones.)

On its surface this all sounds reasonable and rational. Nordhaus was not denying the climate science—far from it, he saw climate change as a profound challenge, which is why he dedicated most of his career to working on it. And public policy and environmental issues are full of trade-offs—after all, it may be important to preserve forests, but we can't preserve *every* tree, as people need timber, land for agriculture, houses, and so on. So, as the argument goes, the sensible approach is to find the right balance in those competing interests. Making those trade-offs is what the political system is for, and the job of economists is then to provide the data to help those policymakers make the best possible choices. That is what Nordhaus was trying to do.

Nordhaus and other economists then advocated that the best tool for policymakers to use to optimize these trade-offs was a *carbon price*. Orthodox economics views climate change just like any other problem of pollution or environmental damage—it is a market failure, an externality. The people producing the emissions (us-

Orthodox economics views climate change as just like any other problem of pollution or environmental damage—it is a market failure, an externality. The people producing the emissions do not see the societal costs of their actions in the prices they pay. So, the solution is to put a price on the externality, so the costs are incorporated in people's decisions.

Many of the risks climate science warns about are irreversible on human time scales. Furthermore, science tells us that many of these irreversible impacts don't happen gradually—there are tipping points where they can happen suddenly, then accelerate with unstoppable momentum, and by the time we see them happening, it is too late.

ing electricity, driving cars, consuming goods) do not see the societal costs of their actions in the prices they pay. So, the solution is to put a price on the externality, so the costs are incorporated in people's decisions. A carbon price could be implemented either through carbon taxes or by creating carbon markets (e.g., issuing permits for emissions and then trading them).

According to the neoliberal consensus, pricing carbon with the invisible hand of the market was much more economically efficient than regulating it with the dead hand of government. The theory claimed a slowly rising carbon price would optimize the trade-offs between economic costs and climate benefits over time—thus following an optimal path to a low-carbon future.[202] And that economically optimal path, according to Nordhaus's calculations, was to go slowly and accept a planet that will be far warmer than it ever has been in human history. Unfortunately, neither the theory nor the policies or politics worked.

8.3. The Theory Didn't Work
Flawed Economics vs. Reality

First the theory. This won't be a comprehensive critique, but key problems include:

▶ **Uncertainty:** As the great baseball philosopher Yogi Berra once said, "It is dangerous to make forecasts, especially about the future."[203] Nordhaus's method relies on an ability to make accurate predictions long into the future and much of the forecasts made in his and other's models have turned out to have been terribly wrong.[204] The costs of zero-carbon technologies have been a lot lower than predicted, and simultaneously, the damage from climate change has already been a lot worse.[205]

▶ **Fat tails:** Related to the above is a point that was forcefully made by the late Harvard economist Martin Weitzman.[206] Nordhaus's method assumes that the really bad scenarios are such a low probability and so far into the future that we can basically ignore them. But as Weitzman put it, "I believe that the most striking feature of the economics of climate change is that its extreme downside is nonnegligible. Deep structural uncertainty about the unknown unknowns of what might go very wrong is coupled with essentially unlimited downside liability on possible planetary damages. That is a recipe for producing what are called 'fat tails.'"[207] The climate science shows that such fat-tailed risks (really, really bad stuff with low but not zero probability) include civilizational-level threats such as sea-level rises that wipe out cities inhabited by billions of people, weather changes that cause a global collapse in food production, or major accelerations in the mass-extinction event that is already underway. What Weitzman showed is that if such fat tails are taken seriously, the answers the models produce change dramatically from "Go slow," to "Act now!"

▶ **Irreversibility and tipping points:** Less known but equally important is the fact that Nordhaus's discounting method implicitly assumes that time is reversible, or in other words, a sequence of events can run both forward and backward.[208] In many economic situations, this assumption is okay—lots of market transactions are in fact essentially reversible. But many of the risks that climate science warns us about are irreversible on human time scales. For example, once the Greenland ice sheet disintegrates, there is no action we can take to refreeze it. If the Siberian tundra thaws

and eons of methane escape, causing runaway temperature rises, we can't say, "Sorry, our bad," and put the methane back. Furthermore, science tells us that many of these irreversible impacts don't happen gradually—there are tipping points where they can happen suddenly, accelerate with unstoppable momentum, and by the time we see them happening, it is too late. In contrast, the Nordhaus method assumes everything is smooth and reversible—or at least stoppable.

▶ **Discount rate:** Some researchers using the cost-benefit trade-off model agree with Nordhaus's "go slow" conclusion, but others have argued we should decarbonize quickly (most famously Lord Nicholas Stern at the London School of Economics, who led a major review for the U.K. government in 2006[209]). A key difference in their analyses is the discount rate the researchers assumed.[210] Some researchers base their assumption on historical market rates (e.g., Treasury rates), arguing those are the real costs of capital we face today. Others using lower rates justify them arguing that climate change is a unique problem that spans many generations into the future, and ethically, future generations have the same right to a healthy environment as we do.[211] That debate still rumbles on, but the larger point is that it shows how fragile and arbitrary this neoliberal consensus, cost-benefit approach is. Could the entire future of our species really depend on one *assumed* number, the discount rate?

▶ **Values:** Finally, and related to the debate on discount rates, this approach assumes that the *only* values that matter with climate are economic values, specifically measured as near-term impacts on GDP. Imagine a world that is denuded of wild spaces, where almost all large animals have gone extinct, and the remaining animal biomass exists solely for meat consumption by humans or their pets.[212] Yet, imagine in this scenario that somehow GDP—at least in some rich countries—continues to grow. Is this a world anyone would want to live in? Even in your air-conditioned house in your gated community? Yet, such a future scenario in the Nordhaus framework could well be "optimal," just because we somehow manage to keep total GDP up.

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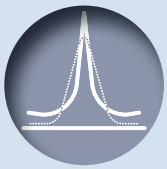
Why the Neoliberal Approach to Climate Doesn't Work

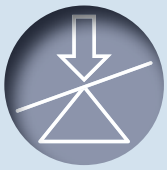
Uncertainty

It relies on an ability to make accurate predictions long into the future.



Fat Tails

It assumes that the really bad scenarios are such a low probability and so far into the future that we can basically ignore them.



Irreversibility and Tipping Points

It implicitly assumes that a sequence of events can run both forward and backward, but many of the risks that climate science warns about are irreversible on the human time scale.

Discount Rate

It relies on a fragile and arbitrary assumption about how much we should discount the future.

Values

It assumes that the only values that matter with climate are economic values, specifically measured as near-term impacts on GDP.

These are just the *economic* problems with the Nordhaus framework. The scientific problems are even worse. In a 2018 paper, published shortly after he received the Nobel, Nordhaus claimed that 3°C of warming would reduce global GDP by only 2.1 percent versus what would happen with no warming.[213] To put that in perspective, that is less than the GDP loss in 2020 due to COVID-19.[214] He further estimated that

The framing of climate change as a technocratic problem of costs versus benefits has been a political gift to powerful interests who want to stop or delay the zero-carbon transition.

a 6°C rise would hit GDP by only 8.5 percent (about a quarter as bad as the Great Depression), and that the "optimal" level of warming, where the costs of action are less than the benefits, is 4°C. However, at 2°C the planet will be hotter than it has been in over 100,000 years—it will not be the same planet our species evolved on.[215] At 4°C, scientists warn it is not guaranteed there would be any humans around to enjoy that "optimal" economy Nordhaus forecasted.

8.4. The Go Slow Message

A Political Gift to the Fossil Fuel Industry

But the "go slow" message coming from this work has had a ready audience in fossil fuel companies. The framing of climate change as a technocratic problem of costs versus benefits has been a political gift to powerful interests who want to stop or delay the zero-carbon transition. It has allowed them to pit people's near-term economic interests and fears against uncertain long-term events. They have used the authority of economists such as Nordhaus to promote a message that the near-term costs of acting on climate will be disastrous—killing jobs, hurting growth, and raising people's energy bills—while the damage climate change will cause will supposedly be mild and far in the future.

Many fossil fuel companies also embraced the idea of a carbon price as a "market-friendly solution," knowing full well that it is almost politically impossible to implement (an Exxon lobbyist was caught saying exactly this on camera).[216] Virtually every effort to create a carbon price has been lobbied to death, such that the resulting prices have been effectively meaningless and the rules inevitably riddled with loopholes. Even Sweden, which arguably has the most supportive politics of any country in the world for carbon pricing, has seen its carbon market loopholed into submission by industrial interests.

The net result is that, despite decades of effort and much political capital invested, carbon pricing hasn't really abated much carbon anywhere in the world.

8.5. A Revolution in Clean Energy Technology

A Big Miss by Economists

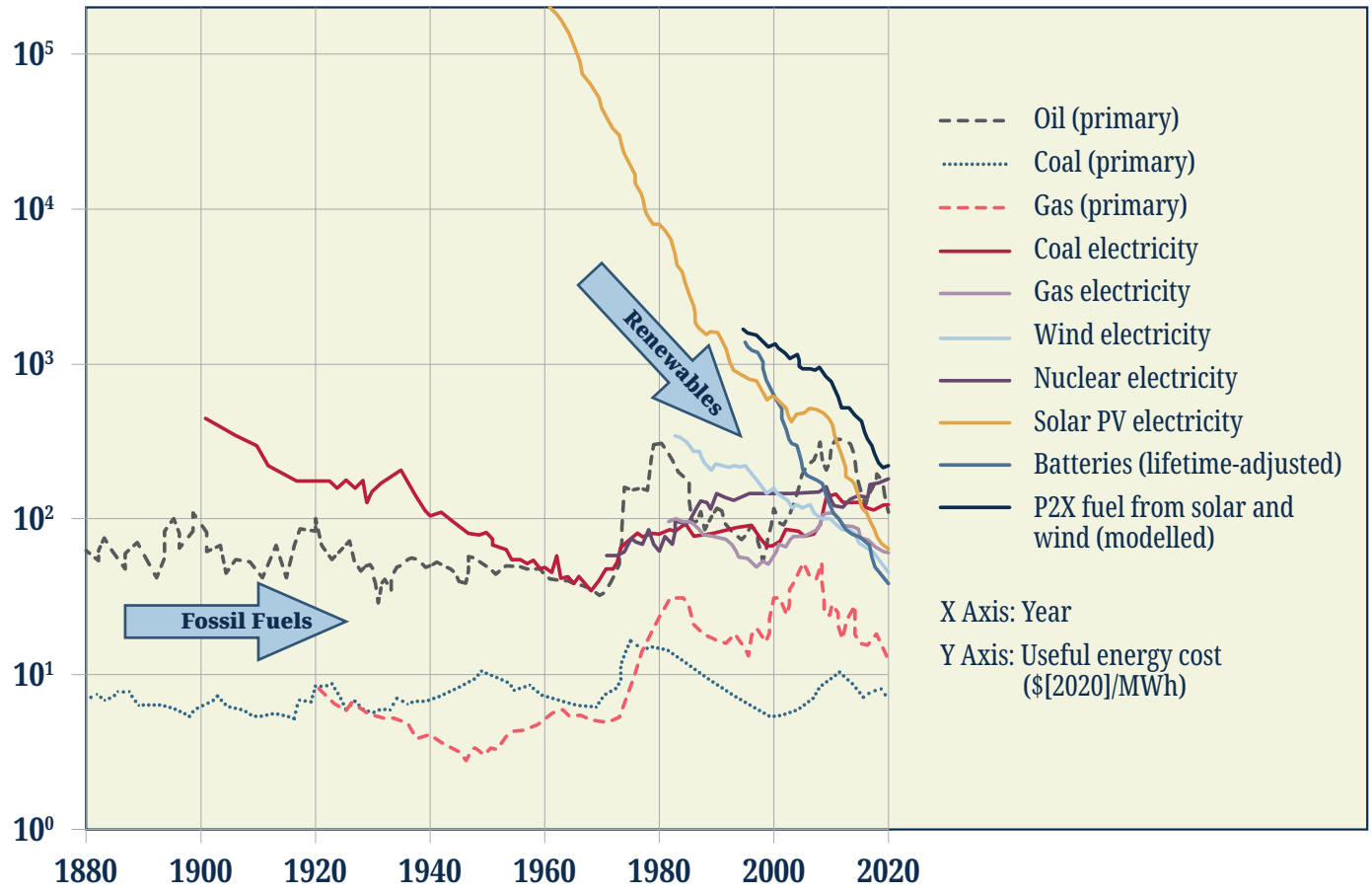
While temperatures soared as the economists fiddled with these cost-benefit models and ineffective carbon prices, there were stirrings of profound changes in the world's energy system.

Photovoltaic solar panels were first developed in 1958 to power the Vanguard 1 satellite. For decades, they remained a very expensive source of electricity, and their adoption was limited to niche applications. When Jimmy Carter put solar panels on the roof of the White House in 1979, it was a symbolic act, not an economical way to power the building. But gradually at first, and then with accelerating speed, their costs began to drop. Since 1990, solar energy costs have dropped an astounding 12 percent per year, and they are now 10,000 times cheaper than in 1958.[217] Solar is now the cheapest source of energy in human history.[218]

This progress hasn't just been limited to solar, since 1990 wind power costs have dropped 4 percent per year and lithium-ion battery costs 12 percent.[219] The drop in the costs of batteries and other forms of storage (e.g., using clean energy to electrolyze water into hydrogen, which can be stored and burned) have been critical in making renewables a realistic source of reliable, large-scale power. As the costs have plummeted and utilities have become better at managing high levels of renewables, their adoption has soared to the point where, in 2024, over 90 percent of new power additions in the world were from renewables.[220]

Today, using a measure of cost that accounts for reliability and flexibility on the grid, the International Energy Agency calculates that solar with battery storage already beats coal-fired plants in India, is competitive with gas-fired plants in the U.S., and will be cheaper than coal-fired electricity in China in 2027.[221]

The Global Energy System is at a Tipping Point:
Renewable Costs Diving Below Fossil Fuels



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This is remarkable progress, yet it was completely missed by the standard economic models used by governments, academics, and investment banks. These models consistently overestimated the future costs of clean energy, making them look worse in the Nordhaus-type cost-benefit analyses and feeding the now-disproven claim that clean energy will be costly and hurt jobs and growth.

The dramatically falling price of clean energy has accelerated its adoption. The growth of new technologies, from railroads to mobile phones, follows what is called an S curve. When a technology is new, it grows exponentially, but its share is tiny, so in absolute terms, its growth looks almost flat. But as exponential growth continues, its share suddenly becomes large, making its absolute growth large too, until the market eventually saturates and growth starts to flatten. The result is an S-shaped adoption curve.

Our intuition tends to linearly extrapolate from the present, yet these patterns of technological change are exponential: a new technology is small and expensive for a long time, and then it suddenly takes over. This has happened time and time again in technological history, from railroads and televisions to computers and mobile phones.

This is what is happening with clean energy technologies. As their costs continue to plummet below those of fossil fuels, and as technologies for storage and grid management improve, they will go through a tipping point.

This is very good news for not just the climate but also the economy. Contrary to the neoliberal consensus view that "go slow" is economically optimal, the dynamics of technology change mean "the faster we go, the cheaper it gets." And the faster we go, the *soon-*

er we get cheaper clean energy.

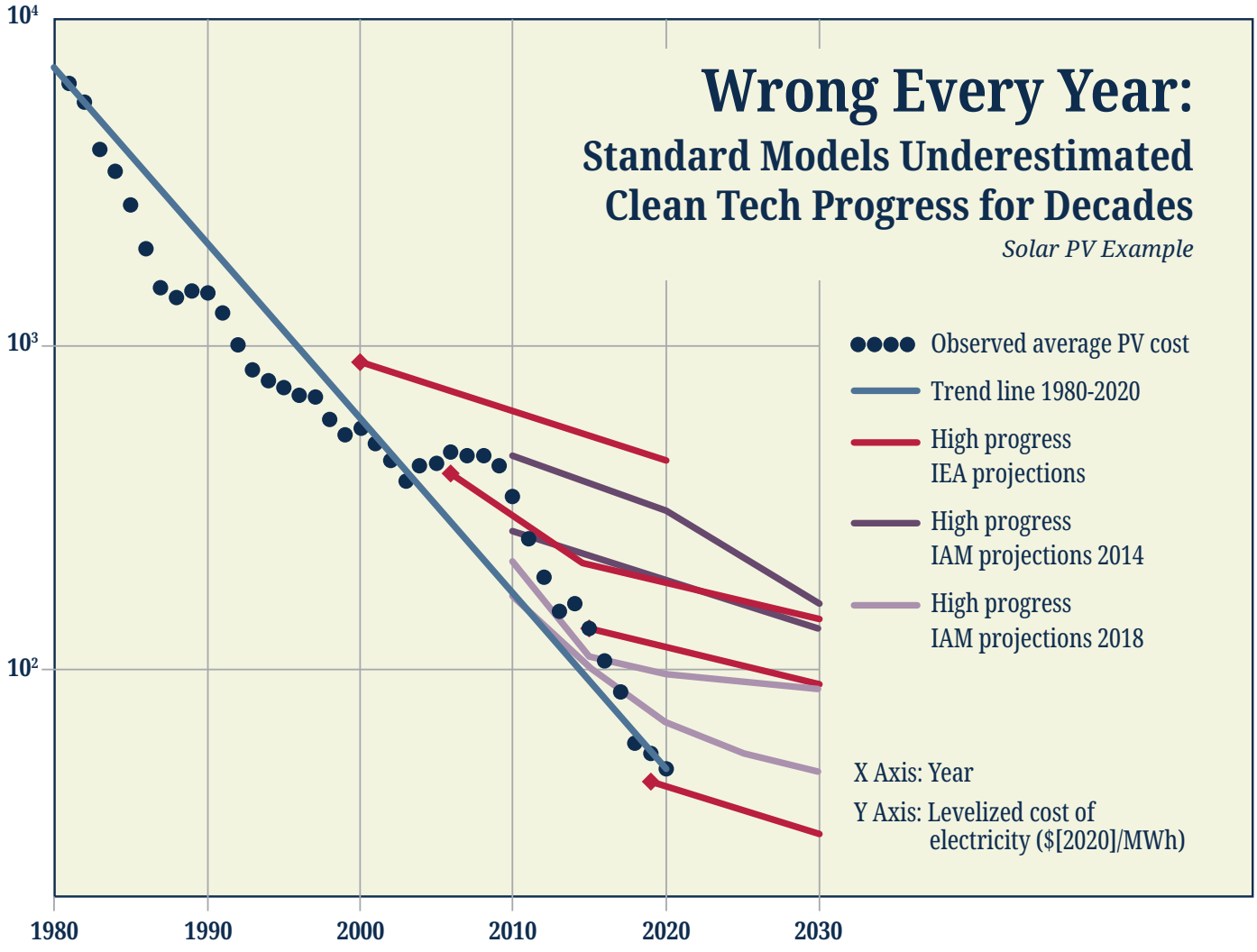
Work by INET Oxford shows that if these technology dynamics are taken into account, an accelerated transition to clean energy, reaching net-zero by 2050 consistent with the Paris Agreement, saves the global economy $8 trillion in energy costs versus a slow transition scenario. If we do nothing to speed the transition to clean energy and continue as we have, we will lose $12 trillion to higher energy costs.[222]

Market Humanist View: An Agenda for a Sustainable Transformation

Once these technology dynamics are understood, it becomes much clearer what the policy agenda should be—make the clean stuff cheap.[223] For more than 30 years, climate advocates have pursued a neoliberal consensus strategy that can be described as "make the dirty stuff expensive"—put a price on carbon to make carbon emitting technologies costlier than low and zero-carbon alternatives, thereby catalyzing a switch. But as we've discussed, that strategy hasn't worked, and emissions have continued to climb. An alternative agenda—one that has been proven to work—is to use policy to expand markets, incentivize adoption, and remove barriers, thus accelerating technology learning and causing costs to decline. This then creates a self-reinforcing loop of adoption, cost declines, and replacement of fossil fuels with clean energy.

There are six elements to this agenda:

1. **Mobilize capital and accelerate investment into clean energy:** This can be done by growing clean energy supply through tax credits and incentives, or expanding demand through re-



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The industrial-era transition to fossil fuel technologies didn't happen because we put a tax on horses; it happened because of active, multi-pronged support and investment from the government that "crowded in" massive investment from the private sector. We need the same for the clean energy revolution.

newable supply requirements and government and corporate purchasing. Capital mobilization is needed not just in developed countries, but also urgently in developing countries where high capital costs create major barriers for otherwise economically attractive clean energy investments.

2. **Smart industrial strategy:** All technologies rely on an ecosystem of supply chains, skills, and other technologies, and clean energy is no different. R&D support, active supply chain development, and investments in key skills can accelerate this development and ensure national competitiveness in the energy technologies of the future.

3. **Build critical public infrastructure:** While most of the new energy infrastructure build-out will be driven by market forces in the private sector, public infrastructure is essential in high-capacity transmission, grid interconnects, electric vehicle charging, and other areas.

4. **Reform regulations:** Major regulatory reform is needed to reduce permitting and other regulatory bottlenecks and accelerate the clean energy build-out. In addition, electricity and other energy markets were designed for fossil fuel economics (i.e., pricing based on marginal fuel costs), and regulatory reform is needed to ensure they don't disadvantage clean power, which has different economics (i.e., capital not fuel is the main cost).

5. **Manage geopolitical collaboration and competition:** Clean energy benefits from global supply chains, trade, and companies working across borders. But there is also intense geopolitical competition (especially with China) for dominance in these strategic technologies. Short-term protection and support to develop national capabilities and ensure a diversity of supply chains is a valid strategy. But it should not come at the greater cost of significantly slowing decarbonization and increasing climate damage.

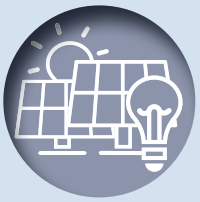
6. **Proactive social policies:** While the overall impact of this transition on employment will be positive (the U.S. already employs three times as many people in clean energy as fossil fuels[224]), the clean energy revolution will create dislocations, particularly as the fossil fuel industry winds down. Some regions will see new jobs replacing old jobs (e.g., as fossil fuel employment in Texas has declined, wind and solar employment has grown rapidly), but others may struggle.[225] Proactive policies to support affected workers and regions will be critical both economically and politically.

How do we know these policies will work? First, they've all been tried to varying degrees in countries around the world, and they have had far more impact to date than carbon pricing.[226] For example, the Economics of Energy Innovation and System Transition initiative, a consortium of researchers supported by the British government, found these types of policies to be highly effective in driving innovation, deployment, and cost declines in cases including wind energy in Europe, Brazil, and the U.K., solar photovoltaics in Germany and China, and energy-efficient lighting in India.[227]

There is also strong evidence that these policies were beginning to have a major impact in the U.S., until the Trump administration put a halt to them. The Inflation Reduction Act (IRA) in just 24 months triggered a wave of over $215 billion of private investment

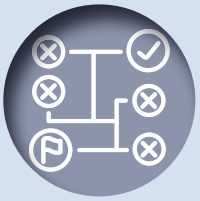
A Market Humanist Agenda for a Sustainable Climate Transformation

Mobilize Capital and Accelerate Investment Into Clean Energy



Smart Industrial Strategy

Build Critical Public Infrastructure



Reform Regulations

Manage Geopolitical Collaboration and Competition

Proactive Social Policies

into clean energy, creating over 100,000 jobs.[228] And despite Trump stepping on the brakes, the Energy Information Agency estimates that a record 63 gigawatts of utility-scale renewable energy will be added to the U.S. grid in 2025, a 30 percent increase over 2024.[229]

Second, these modern clean energy policies are almost identical to the policies that electrified America and built the fossil fuel industry in the early twentieth century. The industrial-era transition to fossil fuel technologies didn't happen because we put a tax on horses; it happened because of active, multi-pronged support and investment from the government that "crowded in" massive investment from the private sector. We need the same for the clean energy revolution.

8.6. Toward a Biophilic Economy
A Safe Operating Space for Humanity

Eliminating carbon emissions is arguably the most urgent environmental challenge we face, but it is far from the only one. The list includes deforestation and habitat loss, overfishing and destruction of ocean environments, pollutants from plastics and forever chemicals, and unsustainable agricultural practices.

In 2009, scientists led by Johan Rockström at the Stockholm Resilience Centre highlighted nine planetary biophysical systems that all life on Earth depends on.[230] They identified boundaries in those systems, beyond which there are tipping points that gravely threaten ecosystems across the planet. Their argument is that those boundaries define a "safe operating space for humanity" within which our economy must function or risk ecosystem collapse, endangering life broadly and human civilization specifically. In 2023, scientists estimated that we have transgressed six out of the nine boundaries.[231]

We earlier said that a fundamental moral principle of Market Humanism is moral equality—the idea that everyone has an equal right to lead a flourishing life. That principle applies not just to everyone alive today but to everyone who will be born in the future. Thus, the only way we can have a moral economy is to have an economy that *both* delivers high well-being today *and* operates within planetary boundaries for tomorrow. That is not the economy we have now. And that

moral obligation extends not just to future human life but to the other species we share the planet with, to all future life. We need an economy that is *biophilic*—compatible with life flourishing on Earth.[232]

Some would argue that this is impossible in a market economy, that we need "degrowth." In effect, advocates of degrowth agree with neoliberals that there is a big trade-off, that the econosphere is fundamentally at war with the biosphere. In their view, a technologically advanced, high material standard of living is simply incompatible with a healthy environment. They point to the fundamental thermodynamic relationships between energy, order creation, and waste that we noted earlier, and the fact that as living standards have risen exponentially, so too has damage to the environment. They argue the only path is a deliberate, planned reduction in humankind's energy and material footprints—degrowth.[233] They simultaneously advocate a massive reallocation of wealth between the rich developed world and developing world to ensure that what material wealth is possible is shared equitably.

As market humanists, we take a different view. We agree with the goal—an economy that delivers high well-being and is sustainable and just. But in a system as complex as the economy (and broader society), this cannot be socially engineered, and such social engineering would also be unlikely to be compatible with individual freedom and democracy. But we can evolve and innovate our way toward that goal. The economy has changed massively in the past and could change again.

As we've discussed, markets exist to serve society, and society therefore has a right to shape the market fitness function to its needs, including the need to avoid mass extinction. A society could choose to require that its markets operate within biophysical boundaries, and thus, firms could only be considered successful if they earned profits in ways that are biophilic. Such societal choices are most legitimately expressed through democratic institutions, which in turn puts high demands on those institutions to shape the market fitness function in the right ways. There are legitimate questions as to whether our current institutions are up to the challenge, but in this case, there really is no alternative.

Markets exist to serve society, and society therefore has a right to shape the market fitness function to its needs.

We should be clear that we are not advocating central planning. We are not proposing, for example, that government bureaucrats should decide what quantity, price, and style of automobiles to produce. That work is the job of markets. Instead, we are arguing that society has a right to require that automobile producers (and all other producers) operate within biophilic boundaries.

What would this look like in practice? At a minimum, it would involve legally binding economies to carbon budgets that lead to net-zero emissions over a time period consistent with limiting warming to 1.5–2 degrees Celsius. The ultimate destination would be a global ban on net-positive emissions by 2050.[234] Such legally binding emission limits would need to be backed by a full suite of regulatory tools and public investments (as described earlier), as well as carbon border adjustments to address trade with countries whose markets are not biophilic. Making markets truly biophilic would further require constraints on a broader set of environmental impacts (for example, waste, pollution, and habitat loss) to drive markets toward a "circular economy" that delivers human well-being with minimal waste and net resource use.[235]

The good news is that such a change in the economic fitness function would not result in inefficiencies and welfare loss—as predicted by traditional analyses—but would result in a massive wave of investment, innovation, and enormous welfare gains (perhaps even infinite welfare gains, given the existential threat to future generations). Instead of experiencing degrowth, as some would advocate, markets with hard biophilic limits as well as policies for a just transition would adapt to find new ways to meet human needs within those constraints.[236] Instead of bio-destructive growth, we could have biophilic progress.

PART IX:

A MIDDLE-OUT POLICY AGENDA

Design Principles and Policy Framework

From theory to action: designing systems that solve problems and adapt over time

> "The way in which we present problems and the world to people will have a tremendous influence on our ability to fight these problems."[237]
>
> —*Esther Duflo*

	From Neoliberal Consensus		To Market Humanism
Values	Moral Foundations	Enjoyment Through Consumption →	Human Flourishing
Scientific	Behavioral Theory	Homo Economicus →	Homo Sapiens
	Economic Systems Theory	Optimizing Machines →	Complex Ecologies
	Processes of Innovation and Change	External Shocks →	Internal Evolution
	Theory of Value	Market Prices →	Solving Human Problems
	Theory of Progress	Growth in productivity →	Growth in Human Cooperation
	Metrics	Economic Output →	Human Outcomes
	Markets and States	Opponents →	Ecology of Institutions
	Effects of Power	Limited to Pricing →	Fundamental to Outcomes
	Causes of Inequality	Meritocratic and Efficient →	Path-Dependent and Compounding
Normative	Implications for Society and Policy	Markets and Efficiency →	Inclusion and Flourishing
	Corporations	Maximize Shareholder Value →	Serve Public Purpose
	Environment	Externality →	Embedded and Interdependent
	Emblematic Policies		
	Center "Job Creators" → **Center Working People**		
	Most salient policies are tax cuts, deregulation, privatization, labor market "flexibility," free trade, and lower government spending.		*Most salient policies are living wages, investing in infrastructure and capabilities, managed trade, tax fairness, resilience, and sustainability.*
	Public Narratives	Trickle Down →	Middle Out

We've worked in this booklet to construct a coherent economic framework, but all that theory is meaningless unless it's made real by substantive policy. **Middle-out economics** is the policy agenda that flows from Market Humanism. And the policy changes need to be meaningful enough to meet the huge scale of the economic challenge we face. To restate just one of those challenges: Since 1975, approximately $79 trillion has flowed from the bottom 90 percent of Americans to the top 1 percent. If not for this upward redistribution, median full-time worker income would be double what it is today.

Market Humanism recognizes that the magnitude of our challenges requires more than marginal policy adjustments. It demands a comprehensive rethinking of our policy framework, guided by seven core design principles:

Market Humanism recognizes that the magnitude of our challenges requires more than marginal policy adjustments. It demands a comprehensive rethinking of our policy framework.

9.1. Seven Design Principles for a Market Humanist Economy

1. Prioritize Problem-Solving and Outcomes Over Output

Core idea: Policy should promote economic activity that solves human problems rather than merely increasing GDP or generating return for shareholders.

Rationale: Prosperity isn't just about producing more things—it's about producing better solutions to human problems. GDP is a flawed metric that counts both beneficial and harmful economic activity equally. A billion dollars spent on cancer treatment counts the same as a billion dollars spent on cigarettes, though one solves problems while the other creates them.

Policy implications: Economic policy should evaluate success by measuring how effectively our economy solves human problems and distributes those solutions broadly. This means developing alternative metrics beyond GDP that capture quality of life, human capabilities, environmental sustainability, and social well-being.

2. Maximize Inclusion as a Source of Economic Progress

Core idea: The more people fully included in the economy, the better it performs.

Rationale: Economic inclusion isn't just a social objective—it's a fundamental driver of prosperity. When more people participate fully in the economy as consumers, workers, entrepreneurs, and innovators, we tap into more knowledge, generate more demand, and create more solutions to human problems.

Policy implications: Policy should go beyond merely aiming to remove barriers that prevent full economic participation; it should actively work to enable every citizen to robustly participate in the economy.

3. Actively Build and Maintain the Middle Class

Core idea: A thriving middle class is the cause, not consequence, of economic growth.

Rationale: Middle classes don't emerge naturally from market forces—they are deliberate political creations that must be continuously maintained against the market's mathematical tendency toward concentration. The middle class drives the virtuous cycle of demand that powers innovation and growth. A robust and thriving middle class is also essential to social cohesion and democracy.

Policy implications: Policy should focus on strengthening the middle class through progressive taxation, labor standards, public investments, and social protections that counter the forces of trickle-up economics.

4. Limit Concentrations of Economic Power

Core idea: Excessive concentration of wealth and power undermines both markets and democracy and will inevitably emerge absent deliberate policy intervention.

Rationale: In the economy, luck, path dependence, and compounding effects cause wealth and power to naturally concentrate over time unless actively pushed against. High concentrations threaten both economic dynamism and democratic governance.

Policy implications: Policy should actively moderate extreme wealth concentration through robust antitrust enforcement, progressive taxation, inheritance taxes, and other mechanisms that prevent the formation of economic dynasties.

5. Balance Competition and Cooperation

Core idea: Economic progress principally relies on both cooperation at scale and fair and robust competition.

Rationale: While competition drives efficiency and market evolution, cooperation at scale is what enables complex problem-solving, which is the source of all value creation. The most successful economies balance these forces, using competition to drive continuous improvement while fostering the trust and cooperation needed for increasingly complex and innovative solutions.

Policy implications: Policy should foster competitive markets that include many viable competitors while simultaneously building the trust, norms, and institutions that enable large-scale cooperation.

6. Invest in Complex Knowledge Networks

Core idea: The true wealth of nations lies in their knowledge networks and capabilities.

Rationale: Economic complexity—the depth and diversity of knowledge embedded in a nation's people and institutions—is the ultimate source of prosperity. Nations don't grow rich merely by just producing more, but by producing more complex things that embed larger amounts of knowledge and know-how.

Policy implications: Policy should prioritize developing, expanding, and supporting domestic knowledge networks through education, workforce development, research funding, strategic industrial policy, and trade.

7. Align Business with Social Purpose

Core idea: The social purpose of businesses is to solve human problems in fair and sustainable ways.

Rationale: Corporations exist to serve a social purpose. When corporate governance focuses exclusively on shareholder returns, it can incentivize behavior that extracts rather than creates value.

Policy implications: Corporate governance policy should recognize that businesses exist to serve a balance of stakeholders. Policy should align corporate incentives with solving human problems, rather than merely maximizing shareholder returns.

9.2. Policy Agenda

These middle-out design principles can be applied to a broad range of policy areas to create a middle-out policy agenda. Below are some specific examples contrasting middle-out versus trickle-down policy approaches:

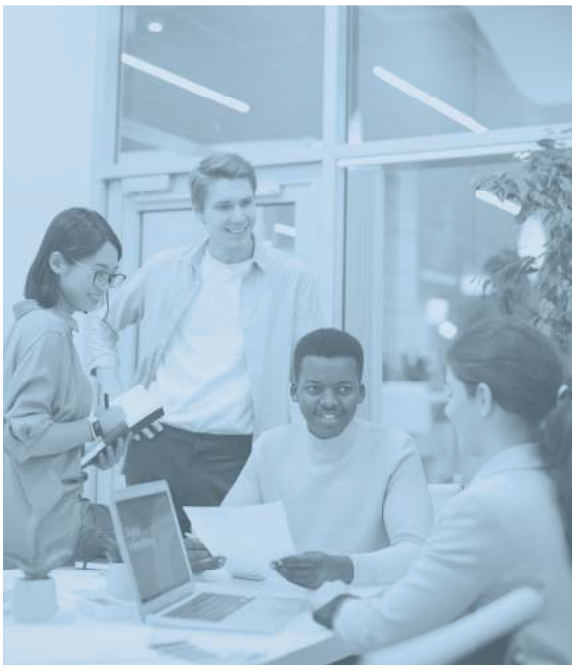
1. Empower Workers

Trickle-Down Approach

Weaken labor to create "flexible" markets by reducing union power, keeping minimum wages low, and eliminating workplace regulations. Lower wages are seen as necessary for business competitiveness and job creation.

Middle-Out Approach

Strengthen labor power and worker protections to ensure that working people capture a fair share of the value they create. This approach recognizes that well-paid workers drive a virtuous economic cycle—when workers have more money, they become robust consumers; when consumers spend, businesses thrive; when businesses thrive, they hire more workers.



Middle-Out Examples:

Wage Standards: Implement and regularly update minimum wages and overtime thresholds that ensure that workers are paid enough to lead secure and dignified lives. Maintain those standards by indexing to increases in national productivity gains.

Collective Bargaining: Strengthen workers' rights to organize and bargain collectively through labor law reform. Move to sectoral bargaining.

Worker Mobility: Eliminate noncompete clauses and other restrictions that limit worker bargaining power.

Worker Classification: Prevent misclassification of employees as independent contractors to ensure access to benefits and other legal protections.

Paid Leave and Benefits: Establish universal paid family and medical leave, sick days, and affordable healthcare. Mandate three weeks of paid vacation for all workers.

Education and Training: Invest in affordable higher education and workforce development programs.

Labor Standards in Procurement: Require living wages and strong labor standards in all government contracts.

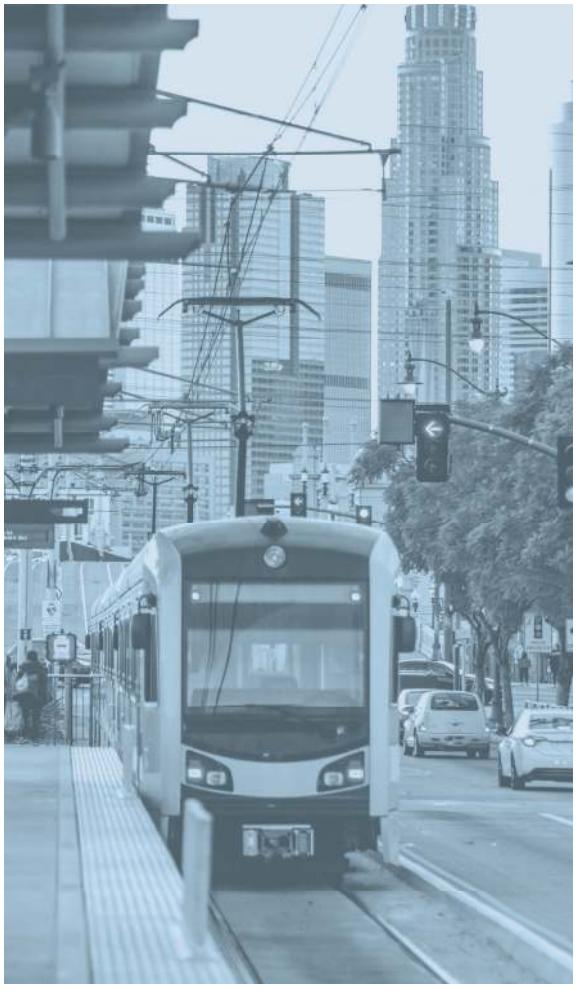
2. Invest in the Public

Trickle-Down Approach

Minimize public investment in favor of tax cuts for the wealthy, assuming private markets will optimally allocate resources. Infrastructure, education, and research and development are seen as areas where government should step back.

Middle-Out Approach

Make strategic public investments in physical infrastructure, scientific research, education, and workforce development to build long-term economic capacity. These investments create jobs in the short term and enhance productivity, innovation, and competitiveness in the long term.



Middle-Out Examples:

Infrastructure Modernization: Rebuild transportation, water, and energy systems with an emphasis on accessibility and sustainability.

Digital Infrastructure: Ensure universal access to affordable high-speed broadband.

Basic Research Funding: Substantially increase public investment in fundamental scientific and technological research.

Advanced Manufacturing: Support domestic production of critical technologies and products through targeted investments.

Clean Energy Development: Invest in renewable energy infrastructure and technology.

Public Education: Fully fund high-quality public education from early childhood through higher education.

Childcare Access: Create universal affordable childcare systems that enable workforce participation.

Workforce Development: Create robust skills training programs aligned with emerging economic needs.

Place-Based Investments: Target resources to struggling communities and regions to rebuild economic ecosystems.

Crowding In: Leverage collaborative initiatives between government, industry, and academia.

Strategic Supply Chains: Invest in critical domestic supply chain resilience for essential products and materials.

Progressive Taxation: Implement tax structures that reduce income and wealth inequality and support essential services.

3. Make Markets Competitive

Trickle-Down Approach

Assume markets are naturally competitive, focusing narrowly on consumer price effects of concentration while ignoring broader impacts on wages, innovation, and democracy. Monopoly power is treated as rare and temporary.

Middle-Out Approach

Aggressively tackle market concentration through robust antitrust enforcement that considers the full range of ways monopoly power affects society—including suppressed wages, reduced innovation, small business closures, and democratic corruption.

Middle-Out Examples:

Antitrust Enforcement: Strengthen and adequately fund antitrust authorities to prevent harmful mergers and break up existing monopolies.

Merger Guidelines: Update merger review standards to consider impacts on workers, suppliers, innovation, and democracy—not just consumer prices.

Financial Regulation: Implement robust oversight of financial institutions to prevent excessive concentration and systemic risk.

Small Business Support: Create policies that level the playing field for small businesses competing against dominant firms.

Platform Regulation: Establish rules preventing digital platforms from exploiting their gatekeeper status.

Patent Reform: Prevent patent abuse and promote knowledge sharing while preserving innovation incentives.

Public Options: Create public alternatives in sectors prone to market failure or excessive concentration.

Regulatory Capture Prevention: Implement strong conflict-of-interest rules and revolving-door restrictions.

Transparency Requirements: Mandate disclosure of pricing, fees, and contract terms to reduce information asymmetries.

Market Structure Design: Proactively design markets to promote competition rather than concentration.

4. Transform the Energy System

Trickle-Down Approach

To the extent that trickle-downers accept the reality of climate change at all, they rely primarily on market mechanisms, assuming externalities can be addressed through minimal carbon pricing while avoiding direct government intervention in energy markets. Climate action is viewed as a cost to be minimized.

Middle-Out Approach

Implement a comprehensive strategy combining carbon pricing, direct public investment, regulatory standards, and industrial policy to accelerate the transition to clean energy. Climate action is viewed as an economic opportunity to create jobs, drive innovation, and enhance prosperity.

Middle-Out Examples:

Industrial Policy: Create policies to support expansion of markets and supply chains for critical clean energy technologies.

Clean Energy Incentives: Large-scale tax and other incentives to adopt and deploy clean energy technologies.

Clean Energy Standards: Establish ambitious renewable- and clean-energy requirements for electricity generation.

Green Infrastructure: Invest in electric vehicle charging networks, grid modernization, and public transportation.

Building Efficiency: Create programs for large-scale building retrofits to improve energy efficiency.

Clean Manufacturing: Support industrial decarbonization through technology development and deployment.

Job Training: Develop comprehensive programs to transition fossil fuel workers to clean-energy sectors.

Environmental Justice: Ensure clean energy benefits and investments reach disadvantaged communities.

Research and Development: Substantially increase funding for clean energy innovation.

Climate Resilience: Invest in infrastructure and communities to withstand climate impacts.

International Cooperation: Lead global climate efforts while ensuring trade partners maintain high standards.

5. Make Trade Strategic

Trickle-Down Approach

Pursue unregulated global trade focused solely on reducing consumer prices, regardless of impacts on domestic industries, workers, or knowledge networks. Trade is viewed as pure efficiency maximization.

Middle-Out Approach

Implement managed trade that maintains openness while supporting domestic knowledge networks, capabilities, and good jobs. Trade agreements include robust labor and environmental standards and aim to enhance domestic innovation ecosystems rather than erode them.

Middle-Out Examples:

Knowledge Network Protection: Identify and preserve critical domestic capabilities and innovation networks.

Labor Standards: Require and enforce strong worker protections and living wages in all trade agreements.

Environmental Standards: Ensure trade partners maintain high environmental standards to prevent race-to-the-bottom dynamics.

Supply Chain Security: Diversify and secure supply chains for critical materials and products.

Domestic Content Requirements: Implement procurement policies favoring domestic production in strategic industries and technologies.

Currency Manipulation Prevention: Establish mechanisms to prevent trading partners from artificially devaluing currencies.

Anti-Dumping Enforcement: Strengthen protections against predatory pricing by foreign producers.

Community Transition Support: Provide comprehensive assistance to communities impacted by trade-related disruption.

Small Business Export Promotion: Create programs helping small businesses access global markets.

Technology Transfer Protections: Prevent forced technology transfers while maintaining innovation flows.

9.3 Emblematic Policies

Four Policies That Illustrate the Values and Principles of Middle-Out

As we have noted, economic paradigms have emblematic policies that play a critical role in not only addressing specific problems but also illustrate the values and principles of the paradigm to the public. In the case of Keynesianism, it was New Deal programs such as the Social Security Act (1935), the Glass–Steagall Act (1933) that insured bank deposits, the National Labor Relations/Wagner Act (1935) that guaranteed workers the right to unionize, and the various public works programs that built major infrastructure and put millions back to work. For the neoliberal consensus, it was rolling back many of these New Deal programs, liberalizing trade, deregulating financial markets, cutting taxes, privatization, and fighting inflation through the Fed.

It is important to note that none of these policies were actually new at the time. For example, Social Security-like legislation was proposed in the early 1900s but met political resistance and never got off the ground.[238] It did not become possible until it became a key element in the Keynesian New Deal paradigm for addressing the Depression. While economic paradigm change can sometimes lead to the innovation of truly new policies, what it mostly does is create an intellectual and political framework that enables an agenda of largely existing policy ideas to cohere into an actionable agenda for change.

Likewise, Market Humanism and middle-out economics do not necessarily lead us to some set of magic-bullet policies that no one has thought of before (though, again, policy innovation will potentially emerge from these ideas in the future). But instead, the paradigm helps us see policies that we already know work in a new light, and it frames them in a larger story and agenda.

In addition to the corporate governance and climate policies discussed in the previous chapters, we will briefly discuss four examples of emblematic middle-out policies: the minimum wage, job guarantees, fixing Social Security, and affordable housing. None of these are new ideas, but they each illustrate practical, proven ways we can strengthen the middle class and grow the economy from the middle out.

Raising the Minimum Wage

There's a reason why the economic framework that would become Market Humanism started to come together during the fast-food worker strikes for higher pay that swept through cities across the U.S. in 2014. In many ways, the minimum wage is the policy that most succinctly illustrates the ideas at the heart of Market Humanism. As one of the authors of this booklet—Nick Hanauer—explained in a coauthored editorial during the debate over raising Seattle's minimum wage, "when workers have more money, businesses have more customers.[239] Raising the minimum wage shifts money in the economy to those with the highest propensity to spend, increasing sales for businesses, which in turn leads to hiring, and more sales."

It couldn't be any more straightforward: Workers in

Workers in the middle and bottom of the wage scale spend almost every additional dollar they earn. When the minimum wage increases, their purchasing power rises immediately, stimulating consumer demand. That increased consumer demand then immediately encourages local businesses to hire, invest, and expand in a virtuous cycle of growth.

the middle and bottom of the wage scale spend almost every additional dollar they earn. When the minimum wage increases, their purchasing power rises immediately, stimulating consumer demand. That increased consumer demand then immediately encourages local businesses to hire, invest, and expand in a virtuous cycle of growth.

It's an obvious explanation of how the economy really works, but it flew in the face of conventional wisdom at the time. For four decades, neoliberals warned that every increase in the minimum wage would result in lost jobs and higher prices for consumers, arguing that it was just "basic Econ 101" that if you raise the price of something, people want less of it. It wasn't true at all, but it was an elegant and compelling argument.

The trickle-down argument against raising the minimum wage had become so widely accepted that the confident threats of job loss were accepted as a fact as true and uncontroversial as the idea that the Earth revolves around the sun. In fact, the *New York Times* published an editorial in 1987 with the telling headline "The Right Minimum Wage: $0.00."[240] In the piece, the editorial board claimed that "there's a virtual consensus among economists that the minimum wage is an idea whose time has passed," because raising the wage "would price working poor people out of the job market."

Only a handful of economic studies dared to question this anti-minimum-wage status quo, most notably David Card and Alan Krueger's 1994 paper that showed raising the minimum wage didn't kill jobs by examining fast-food employment rates in a state with a high minimum wage (New Jersey) that bordered on a low-wage state (Pennsylvania).[241] In the years since cities and states across the U.S. adopted $15 minimum wages, that body of research has grown considerably. Studies have since shown that raising the minimum wage did not increase grocery store prices, that raising the wage increases pay for workers making up to $5 above the new minimum, and that raising the minimum wage creates jobs.[242]

The data has finally put the lie to the only argument against raising the minimum wage. But workers are still paying the price of those four decades of neoliberal orthodoxy and its attendant wage suppression. Wages have become increasingly detached from productivity, meaning that even as worker output has grown, paychecks have stagnated. Since it was last updated in 2009, the federal minimum wage has been frozen at $7.25 per hour. We are living in the longest period without a federal minimum wage increase since the instatement of the minimum wage during the Great Depression, and in the years since the $7.25 wage was established, it has lost nearly a third of its real spending power.[243] In every single part of the country, the federal minimum wage is comically unable to meet the actual cost of living.[244]

Politically speaking, raising the minimum wage is one of the most popular economic policies in the nation.[245] Ballot measures have passed in conservative and liberal states and cities alike, often by overwhelming margins.[246] Voters intuitively understand that a prosperous consumer economy can't grow without the robust participation of every worker.

In the decade-plus since the Fight for $15 began, the inflationary price increases of the pandemic era have already rendered a $15 minimum wage insufficient to support an American family anywhere in the nation.[247] That's why it is important that many of the wage increases include annual cost-of-living adjustments—in 2026,




for instance, Seattle's minimum wage reached $21.30 per hour, and Washington state increased to $17.13.[248]

With those cost increases in mind, the federal minimum wage should be raised even higher than $15 per hour. In 2025, 34 senators and 165 representatives in Congress moved to raise the federal minimum to $17 per hour over five years, as well as eliminating the tipped and youth worker subminimum wages over seven years.[249] That number is markedly lower than the $26 per hour that the minimum wage would be today, had wages kept pace with productivity over the past six decades, but it's a strong step toward reinvigorating a consumer economy that has lost considerable ground for decades.[250]

Guaranteed Jobs

The idea of a guaranteed job is also not new. Indeed, the New Deal-era Public Works Administration, Civilian Conservation Corps, and Works Progress Administration provided guaranteed jobs to millions during the depths of the Depression and left a legacy of infrastructure the U.S. is still living off of today. More recently there have been proposals to create a modern version of a job guarantee, for example by the Center for American Progress.[251] However, these proposals have been stymied by questions over how such a guarantee would work, its costs, and its effectiveness.

In 2020, economists Max Kasy and Lukas Lehner at INET Oxford (Eric's research institute), set out to investigate those questions with a large-scale, multi-year field experiment supported by the government of Austria.[252] They launched a guaranteed job pilot in the town of Marienthal, south of Vienna—a town that in the 1930s was a symbol of Depression-era mass unemployment and a hotbed of Nazism. The Marienthal Job Guarantee pilot program offered every long-term unemployed resident a two-month preparatory training course followed by a job that paid at least at the minimum wage, tailored to their skills and local needs.[253] The jobs were a mix of subsidized work with local businesses, public-sector jobs such as repairing community spaces, supporting schools and care homes, or reviving public gardens, and participants were also offered an option to start one's own small business.

Participation was voluntary; there were no penalties for refusing and opting for standard unemployment benefits (this differentiates it from "workfare," where work is required to get welfare benefits, such as was part of Bill Clinton's 1996 welfare reform). This was an important design feature, as the program focused on people who wanted to and could work but for var-

Political support for a jobs guarantee is very high—generally polling with 60 to 80 percent support—as it resonates with people's instincts for reciprocity: that people should contribute to society and be rewarded for that. In the U.S., political support is strongest when it is positioned as a locally led program (like the Marienthal program) rather than as a federal job guarantee (which sounds like a big bureaucratic initiative).

ious reasons had not succeeded in securing long-term employment. This recognized that there is another part of the long-term unemployed population with mental and physical health, addiction, or other issues that prevent them from working and who need different kinds of support and interventions.

The results have been striking. Within months, long-term unemployment was virtually eliminated in the town. Participants' incomes rose, financial insecurity fell, and measures of well-being, self-esteem, and social connection improved sharply. A number of participants who were employed in subsidized roles with local businesses were converted to normal, unsubsidized employment due to their success in their roles. Crucially, these jobs did not come at the expense of other workers: The researchers found no evidence that the new jobs displaced private employment. Even those waiting to join the program reported feeling more hopeful—the mere knowledge that work was available changed the psychological climate of the community.

The cost, roughly €30,000 per participant per year, was comparable to what the government already spends on unemployment benefits and lost tax revenue.[254] But unlike benefits, the job guarantee offered something deeper: purpose, dignity, and routine. For many, it replaced the anxiety of being cast aside from society and restored feelings of being needed and productive.

The Austrian pilot challenges one of the core assumptions of the neoliberal consensus—that unemployment is a necessary byproduct of efficiency. It suggests instead that a job guarantee can be both feasible and humane, turning public expenditure from passive support into active inclusion. It is, in effect, a new kind of social contract: The state becomes an employer of last resort, ensuring that work—meaningful, socially useful work—is a right, not a privilege.

Political support for a jobs guarantee is very high—generally polling with 60 to 80 percent support—as it resonates with people's instincts for reciprocity, that people should contribute to society and be rewarded for that.[255] In the U.S., political support would be strongest when it is positioned as a locally led program (like the Marienthal program) rather than as a federal job guarantee (which sounds like a big bureaucratic initiative). And political support is significantly higher than proposals for a universal basic income (UBI), which many people see as "paying people to do nothing" and violates their sense of reciprocity.[256]

Scaling such a program to the national level in Austria or to a larger country will undoubtedly present challenges. But both the Austrian government and the European Union have allocated funds to launch a set of larger-scale experiments in not just Austria but other European countries as well. In the U.S., there is a tremendous opportunity to launch a set of pilots in different parts of the country, led by states and cities, but with federal support.

Work is about more than an income; it is about contributing to and being a valued member of society. A job guarantee makes that possible for everyone.

Fixing Social Security

America's most successful social program is not running out of money—it is running out of fairness. Social Security's shortfall is not the product of demographics or generosity but of rising inequality. The system's tax base has eroded as the share of national income flowing to wages has fallen, leaving ever more earnings above the payroll cap and beyond reach.

When Social Security was designed in 1935, almost all income came from work. Today, only about 82 percent of wages fall within the taxable cap, and most capital gains, dividends, and business profits contribute nothing to the system.[257] A tax built for the Industrial Age now funds a program in a postindustrial economy dominated by capital income.

The remedy is strikingly simple: Apply the Social Security tax to all personal income while halving the rate from 12.4 percent to roughly 6.2 percent. This reform would do three things at once. It would permanently secure Social Security's finances by broadening its base; it would give nearly all workers an immediate pay rise (about $3,700 a year for someone earning $60,000); and it would align the tax code with a twenty-first-century economy in which wealth, not wages, drives income growth.

The macroeconomic effects would be powerful. Redirecting the tax burden to savings-heavy higher earners and away from middle-income households could inject billions of dollars into the economy each year, because middle-income households spend most of what they earn.

This approach also corrects a deep bias. Labor income is taxed for Social Security at more than 12 percent, while capital income pays nothing. The result is both unfair and inefficient, discouraging hiring and rewarding financial engineering. For example, a dollar earned by a teacher or nurse is taxed at 12.4 percent for Social Security, while a dollar earned by a hedge fund manager's carried interest pays nothing. This bias not only entrenches inequality but also distorts business decisions—encouraging firms to favor stock buybacks and automation over hiring and wages. A universal base and lower rate would restore neutrality: Every dollar of income would contribute equally to the collective insurance that underpins economic security.

The remedy to America's most successful social program is strikingly simple and would do three things at once: permanently secure Social Security's finances, give nearly all workers an immediate pay rise, and align the tax code with a 21st-century economy in which wealth, not wages, drives income growth.

Unlike austerity-driven "rescue" plans that cut benefits or raise the retirement age, this reform is revenue-neutral and future-proof. It strengthens the program without reducing coverage, modernizes it for an era of automation and AI, and renews the moral contract that underlies American prosperity: Every-

one contributes, and everyone is protected. Extending the base, lowering the rate, and rewarding work over wealth—that is not just good economics; it is the fairest way to rebuild the middle class.

Building Affordable Housing

America's housing market has swollen in value, but that value is based on rapidly growing exclusion. Nationwide, the median home now costs five times the median household income—and in fast-growing cities like Seattle, that ratio approaches seven-to-one.[258] Nearly half of all renters are cost-burdened, paying more than 30 percent of their income on housing. Homelessness has surged to record levels, with anywhere from 650,000 to 770,000 Americans unhoused on any given night.[259] Yet the standard prescriptions—loosen zoning rules, build more private housing—have repeatedly failed to restore affordability.

The reason for this failure is structural, not procedural. America doesn't merely suffer from a shortage of homes; it suffers from a market design failure. Left to their own devices, housing markets maximize profit extraction, not affordability. As a research paper from the National Bureau of Economic Research recently showed, cities with light-touch planning such as Houston experienced the same price-to-income escalation ratio as heavily regulated ones like San Francisco.[260] Supply alone does not guarantee affordability when developers chase the highest margins.

There is, however, an alternative, in a vibrant city where housing is affordable to most people: Vienna.[261] Roughly 43 percent of its housing is owned either publicly or by nonprofits, rented at cost rather than at "what the market will bear."[262] Around 80 percent of Viennese residents qualify for affordable housing, and, once admitted, they can stay in that housing even if their income grows past the point of qualification.[263] The system is not "welfare housing;" it is mainstream infrastructure for middle-income earners. With this scale of public provision, Vienna has contained private rents, too—the hallmark of a genuinely competitive market.

It's important to acknowledge that this housing program isn't more affordable than other new housing on day one. But because rents in this model never rise

The beauty of the public housing option is that it reshapes markets without replacing them. Built at scale, it creates genuine competition for private landlords who've faced virtually none.

higher than costs, as time goes on the housing gets more and more affordable. And because rents fully service the debt used to build, there is no real constraint on how much localities can build, as long as they have borrowing capacity. This lowers the barriers to building at the scale needed to address the problem.

This model does not mean governments must get into the business of building and operating large amounts of housing themselves. Housing authorities could tender projects to private builders and managers, retaining only ownership and a nonprofit public mission that keeps rents fixed to cover the interest payments. The result would be a public option for housing: a cost-based alternative that engages with the private market by offering genuine choice.

The beauty of the public option is that it reshapes markets without replacing them. Built at scale, it creates genuine competition for private landlords who've faced virtually none. Unlike vouchers (which inflate demand without addressing supply) or rent controls (which reduce supply), the public option both adds supply and constrains pricing. In the spirit of Market Humanism, it is profoundly pro-market, making markets work for the many not just the few. And in the spirit of middle-out economics, it treats housing as essential civic infrastructure—restoring access for working families and younger households, which are the backbone of an economically vibrant nation.

PART X:

FROM TRICKLE-DOWN TO MIDDLE-OUT

A New Narrative for the New Paradigm

How a middle-out narrative can create a new economic common sense

"Our species thinks in metaphors and learns through stories."[264]

—Mary Catherine Bateson

		From Neoliberal Consensus	→	To Market Humanism
Values	Moral Foundations	Enjoyment Through Consumption	→	Human Flourishing
Scientific	Behavioral Theory	Homo Economicus	→	Homo Sapiens
	Economic Systems Theory	Optimizing Machines	→	Complex Ecologies
	Processes of Innovation and Change	External Shocks	→	Internal Evolution
	Theory of Value	Market Prices	→	Solving Human Problems
	Theory of Progress	Growth in productivity	→	Growth in Human Cooperation
	Metrics	Economic Output	→	Human Outcomes
	Markets and States	Opponents	→	Ecology of Institutions
	Effects of Power	Limited to Pricing	→	Fundamental to Outcomes
	Causes of Inequality	Meritocratic and Efficient	→	Path-Dependent and Compounding
	Implications for Society and Policy	Markets and Efficiency	→	Inclusion and Flourishing
	Corporations	Maximize Shareholder Value	→	Serve Public Purpose
	Environment	Externality	→	Embedded and Interdependent
	Emblematic Policies	Center "Job Creators"	→	Center Working People
Normative	**Public Narratives**			
		Trickle Down	→	**Middle Out**
		The economy grows from the top down: When rich people have more money, they invest that money to create jobs and economic growth, which benefit everyone else.		*The economy grows from the middle out: A thriving middle class boosts demand and innovation, which causes economic growth and creates a dynamic business environment.*

A core tenet of Market Humanism is that prosperity is created by cooperation. It is the dense, diverse, large-scale, high trust networks of cooperation in the economy that create knowledge and solve problems in ways that make our lives better. Those networks are biggest and strongest when societies have large, thriving middle-classes.[265] This creates a virtuous circle between innovation and demand—as we have said, economies grow from the "middle-out".

This isn't just a theory about how the economy grows, it is also a political narrative. In the final layer of our paradigm stack are public narratives that convey the paradigm's values and explanations in intuitive ways. The public narrative for Market Humanism is middle-out economics. The middle-out narrative puts working people at the center, it tells them, "You are the heroes of the economic story. It is your hard work that creates our prosperity." It argues that a large and thriving middle class is the primary driver of economic growth, not merely its consequence, and that the broader and deeper economic inclusion is expanded in the economy, the faster the economy grows. It then follows that policies that invest in, empower, and expand the middle class are good for the economy.

Trickle-down economics advances the opposite proposition: that wealthy "job creators" are the primary driver of economic growth, and that growth eventually trickles down to enable middle-class prosperity.

As we have discussed, this debate between middle-out and trickle-down reflects profound disagreements about how market economies function, with far-reaching implications for economic policy design.

Trickle-down economics identifies capital scarcity—insufficient wealth among investors—as the primary constraint on growth. Accordingly, it promotes policies that prioritize the needs of capital owners

Middle-Out Economics	Trickle-Down Economics
The economy grows from the bottom up and the middle out: *A thriving middle class boosts consumer demand, which causes economic growth and creates a dynamic business environment.*	***The economy grows from the top down:*** *Give more money to rich people and big corporations, and they'll create jobs and economic growth, which eventually trickles down to everyone else.*
Invest in America Invest in our country and our people to create good-paying jobs, high-quality schools and infrastructure, and a prosperous future for our nation.	**Tax Cuts for the Rich** Allow our schools and infrastructure to crumble, cut healthcare and retirement, and harm our nation's ability to compete globally.
Promote Competition Rein in monopolies and enable smaller businesses to compete, which spurs innovation, lowers prices, raises wages, and expands consumer choice.	**Deregulate the Powerful** Unchecked corporate power means more monopolies and less competition, which rewards greed, raises prices, lowers wages, and reduces consumer choice.
Empower Workers Raise wages, lower costs, and increase economic security to ensure hardworking Americans have the foundation they need to build a good life.	**Enrich Shareholders** Suppress wages, roll back labor standards, and undermine unions to further enrich CEOs and shareholders.

while relying on market mechanisms (Adam Smith's famous "invisible hand") to distribute the benefits of resulting growth to the rest of the economy.

Middle-out economics, by contrast, recognizes that economic growth requires broad participation—from entrepreneurs, innovators, workers, and consumers—and therefore advances policies that intentionally build human capabilities and align markets to serve human needs, trusting market dynamism to innovate solutions in response to any constraints or costs these policies might impose.

This middle-out framework was deliberately crafted as a counternarrative to trickle-down and offers three distinct strategic advantages over alternative progressive economic messaging.

First, it inherently generates contrast and conflict—middle-out versus trickle-down—and conflict is essential to compelling political storytelling.

Second, by defining itself in opposition to a familiar concept, middle-out leverages voters' existing knowledge of trickle-down economics—and their documented skepticism toward it—to create a narrative shortcut.

When we present voters with a choice between a middle-out narrative that celebrates American workers as the primary source of prosperity and a trickle-down narrative that lionizes the wealthy as "job creators," most Americans will embrace the economic story that places them at its center.

This positions middle-out as a concept onto which voters can project their aspirations for what *not-trickle-down* might represent. When voters see Medicaid cuts funding billionaire tax breaks—a policy that polling shows is deeply unpopular—this can be framed as middle-out versus trickle-down, and voters understand instinctively that middle-out represents something different.[266]

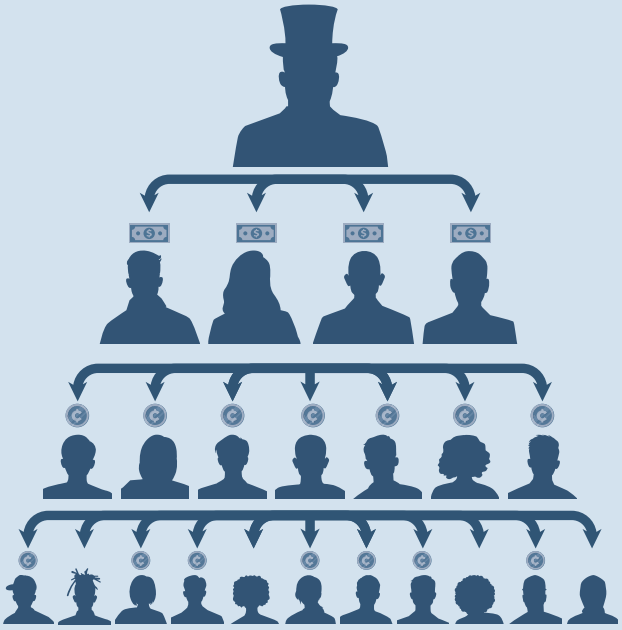
The third and perhaps greatest advantage that middle-out enjoys over other progressive narratives is its deliberate mimicry of trickle-down's narrative simplicity. By modeling itself as trickle-down's inverse, middle-out borrows its opponent's most enviable characteristic: conceptual clarity. Prosperity grows from the middle out, not the top down.

For five decades, mainstream progressivism has operated at a profound narrative disadvantage by failing to articulate a coherent theory of economic growth and opportunity. Progressive economic narratives have instead been framed in economic justice terms. While valid, these narratives have not been successful. Polling consistently shows progressives are less trusted on the economy despite stronger actual performance.

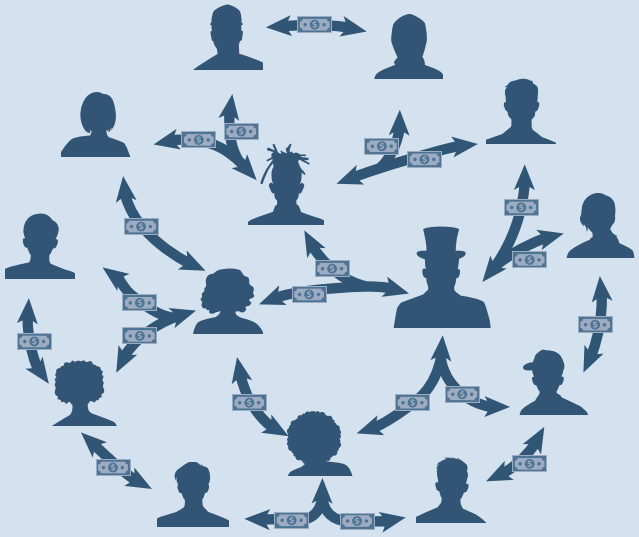
Trickle-down's theoretical foundations may be empirically bankrupt, its policies demonstrably unpopular, its politics corrosive, and its consequences economically catastrophic. But its growth theory remains simple, coherent, and internally consistent. Moreover, it is universally understood: Tax cuts for the wealthy generate investment and job creation for everyone else. Minimum wage increases reduce employment. Deregulation drives innovation, efficiency, and competitiveness. Small government means more freedom. These talking points are empirically false, but they represent variations on a single, intuitive, and familiar theme: Prosperity flows from the top down.

Voters may despise trickle-down's implications, but they inherently understand its causal logic: jobs originate with wealthy investors. Progressive economic theory, by comparison, lacks this clarity. Can it be summarized in a single sentence? Does a coherent progressive theory of growth even exist? Having a progressive theory of growth is essential—polling by the Winning Jobs Narrative project shows that 64 percent

Changing the Narrative About How the Economy Grows



Trickle-Down



Middle-Out

Middle-out economics changes the conversation by putting hardworking Americans at the center of our narrative.

The Middle-Out Narrative Wins

Middle-out economics changes the conversation by putting hardworking Americans at the center of our narrative—not the CEOs and zillionaires who drive the trickle-down story. Applying a middle-out framework is transformative. It lets us explain that:

1. **Our agenda is good for the economy because it's good for people.** A thriving middle class is the source of economic growth, so policies that benefit hardworking Americans benefit the economy.

2. **Including more people in the economy grows the economy—in fact, this is the *cause* of growth and innovation.** Higher wages and lower prices aren't a luxury we need to figure out if we can afford; they're how growth happens.

3. **Managing markets to raise wages and lower costs for hardworking Americans boosts the economy.** Increasing levels of competition and innovation benefit everyone.

of voters prioritize growth over fairness.[267]

Middle-out economics, grounded in Market Humanism, fills this critical void. Put in its simplest terms, we should invest in policies that lower costs and raise incomes for working people. Hardworking Americans are the engines of our economy—and when they can thrive, the economy grows, businesses prosper, and America is more competitive. Growing our middle class by creating more opportunities and prosperity for working people is what grows our economy. It creates both fairness and growth.

Three concepts implicit in the middle-out framework profoundly reshape economic narrative construction:

First, it positions hardworking Americans—not a small cohort of billionaires—as the heroes of the U.S. economic story. A large majority of Americans self-identify as "middle class."[268]

Second, it neutralizes attacks on traditional social justice framings. Opponents twist those frames into "giving to others, taking from you" zero-sum stories. A growth story with "hardworking Americans" as the heroes means it is about *you*, and you deserve to be rewarded for your labor and contributions to society.

Third, it reframes social equity and environmental policies, which polling demonstrates most Americans already support, as pro-growth policies.

The path to victory in economic debates requires articulating clear, compelling choices—not between fairness and growth, as trickle-down advocates prefer, but between the thriving communities of prosperous working Americans envisioned by middle-out economics, and the wage stagnation, soaring costs, and inequality that characterize the trickle-down era.[269] When we present voters with a choice between a middle-out narrative that celebrates American workers as the primary source of prosperity and a trickle-down narrative that lionizes the wealthy as job creators, most Americans will embrace the economic story that places them at its center. If we offer voters a choice between growing the economy from the middle out or from the top down, they will choose middle-out economics.

How to Talk About Middle-Out Economics

The Winning Jobs Narrative has done extensive polling and fieldwork focused on exploring how working-class voters think about the economy and government. These two slides highlight their key findings with regard to the middle-out economic narrative.[270]

PART XI:

A DEMOCRACY, IF YOU CAN KEEP IT

The Political Foundations of a Market Humanist Economy

Why democratic governance is essential to economic flourishing

> "We can have a democratic society or we can have the concentration of great wealth in the hands of a few. We cannot have both."[271]
>
> —*Louis Brandeis*

We stand at a critical juncture in American history. The extreme inequality produced by five decades of neoliberal economics hasn't just concentrated wealth, it has concentrated political power, creating a feedback loop that threatens the very foundations of our democracy.

A market humanist economy is by definition democratic—it puts the well-being of people at its center. But as the economy grows more complex and powerful, democratic governance must coevolve with it. This is true because the same evolutionary forces that unleash the market's immense prosperity-creating potential also tend to concentrate wealth and power in the hands of the few. Absent the regulatory and redistributive constraints imposed by an inclusive democracy, the extractive impulses of the market—and the highly unequal outcomes they produce—inevitably erode popular support for both democracy and markets.

This relationship between economic structure and democratic health is not incidental—it is fundamental. In the long term, it is impossible to have a thriving democracy with a trickle-down economy. If the best our politics can do is enact economic policies that concentrates wealth and power at the top, while immiserating everyone else, the majority of citizens will conclude that democracy is useless. This is where America finds itself today.

As Nobel economists Daron Acemoglu and James Robinson demonstrate in their landmark work *Why Nations Fail*, the line between prosperous democracies and failed states often comes down to whether their institutions are "inclusive" or "extractive."[272] Inclusive political institutions support inclusive economic structures that distribute opportunity and prosperity broadly. In turn, inclusive economies sustain the broad middle class necessary for democratic institutions to function effectively.

Inclusive political institutions support inclusive economic structures that distribute opportunity and prosperity broadly. In turn, inclusive economies sustain the broad middle class necessary for democratic institutions to function effectively.

This reciprocal relationship creates either a virtuous or vicious cycle. When economies grow more inclusive, their political institutions tend to follow suit, becoming more representative and responsive. Conversely, as wealth and economic power concentrate, political institutions inevitably become captured and more extractive—serving the few at the expense of the many, regardless of democratic appearances.

America's founders understood this dynamic intuitively. As Vanderbilt law professor Ganesh Sitaraman explains in *The Crisis of the Middle-Class Constitution*, unlike the "class warfare constitutions" of previous republics, America's constitutional design assumes relative economic equality.[273] Our government was structured for a society with a dominant middle class, not one divided between a powerful elite and everyone else.

"The American Constitution is different," Sitaraman writes. "Our Constitution isn't based on the assumption that class conflict is inevitable. ... In fact, our Constitution does not have a single provision—not one—that explicitly entrenches economic class into the structure of government."[274]

This design wasn't accidental. The founders recognized that political equality cannot survive alongside extreme economic inequality. A republic requires citizens with sufficient economic independence to participate meaningfully in civic life and resist corruption. When economic power concentrates excessively, political power inevitably follows, transforming even nominally democratic systems into functional oligarchies.

Today, as America's middle class has been hollowed out under the pressures of extreme inequality, we face precisely this threat. The neoliberal revolution promised shared prosperity but delivered concentration—of both wealth and power. As the economic foundations

of our democracy have eroded, so have its political functions, creating a death spiral that threatens both shared prosperity and democratic governance.

Market Humanism and middle-out economics offer a path forward—not just toward a more equitable distribution of economic gains but toward the revitalization of democratic governance itself. By recognizing that inclusive economies create both greater prosperity and stronger democracies, we can break the vicious cycle of concentration and build a new virtuous cycle of shared progress.

Fairness for working people *causes* prosperity. The job of companies is to *solve problems* for the many, not just create riches for the few. These are messages that don't just lead to a better economy, but also a healthier democracy.

The countries that have most successfully navigated the challenges of globalization, technological disruption, and social change are precisely those that maintained strong middle classes through inclusive economic institutions.

The choice between trickle-down and middle-out economics isn't just economic—it's existential for democracy itself. As historian Peter Turchin reminds us in *End Times*, societies become unstable when a small segment of elites captures a disproportionate share of resources, while the majority fall behind.[275] If we hope to preserve our republic for future generations, we must rebuild the broad middle class upon which it stands. This means embracing policies that actively counter the wealth-concentrating tendencies of markets, ensuring that the benefits of growth and innovation flow not just to a narrow elite group but also to the society that makes them possible.

The purpose of an economy is to broadly improve human lives, and the more people we fully include in our economy—as innovators, entrepreneurs, workers, and consumers—the more prosperous and democratic our society becomes.

The moment requires us to assert a fundamental truth that the founders understood but that the neoliberal consensus obscured: The purpose of an economy is to broadly improve human lives, and the more people we fully include in our economy—as innovators, entrepreneurs, workers, and consumers—the more prosperous and democratic our society becomes.

Middle-out economics seeks to build an economy of the people, by the people, for the people.

PART XII:

CONCLUSION

Choosing a New Paradigm

Freedom, flourishing, and the future of markets

> "We made the world we're living in and we have to make it over."
>
> —*James Baldwin*

Markets are not governed by laws of nature. They are human inventions—technologies of cooperation, shaped by rules and stories that we have chosen to govern ourselves. And like all technologies, their design is a choice.

We can choose to believe that corporations exist solely to maximize shareholder profit—or that their purpose is to solve human problems. We can continue measuring success by GDP, which rises when we cut down forests or when medical costs balloon from preventable diseases. Or we can measure it by whether societies become more resilient and people lead secure, flourishing lives.

The defenders of the neoliberal consensus claim their model is not a choice but a science. Yet neoliberalism was always a political project masquerading as theory—asserting the primacy of capital over labor and pretending that markets are morally neutral. It delivered precisely what it was built to deliver: record wealth for the few. The gutting of the middle class, degradation of the environment, and destruction of our democracy were just collateral damage to this mission.

Even those who see these problems sometimes argue we can fix neoliberalism with better regulation or taxes. But if everything that matters—innovation,

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The task ahead is not incremental reform but replacement. Market Humanism offers a framework for an economy that measures success by problem-solving, resilience, and human well-being—not capital accumulation. Corporations should earn profits by creating genuine value for people and society, by solving problems—not by exploiting them and creating problems.

bargaining power, sustainability—is dismissed as an "externality" or a "market failure," then it is the *framework itself* that has failed. Patching a sinking ship is not renewal; it is denial.

A Crisis of Spirit and Agency

The damage is not only material but moral. An economy built on hyper-individualism has produced a civilizational crisis—a collapse of meaning, purpose, agency, and human connection that manifests in the epidemic levels of loneliness, depression, anxiety, suicide, and addiction we see today, especially among the young. A 2023 Harvard study found that 58 percent of young adults report lacking meaning and purpose in their lives.[276]

A century ago, Calvin Coolidge warned that material prosperity would become "a barren sceptre in our grasp" unless anchored by "things of the spirit."[277] His warning has come true.

The neoliberal paradigm told us to relegate such moral questions to the private sphere—to churches, homes, and families—while keeping public life "neutral" and focused on maximizing individual choice and material consumption. But this attempted separation was always illusory. An economy shapes souls, not just bank accounts. When we designed markets to treat people as isolated utility maximizers rather than social beings seeking meaning, we didn't create value-neutral institutions—we created institutions that actively corrode the human capacity for cooperation, trust, and purpose.

The Addiction Economy as Microcosm

Nowhere is the moral bankruptcy of our current paradigm more visible than in what many now call the addiction economy—the vast sectors of modern economic life explicitly designed to exploit, rather than serve, human needs.[278] Social media platforms calibrate every feature to maximize engagement—that is, addiction—not wisdom or well-being. Their profits rise in direct proportion to how angry, anxious, and divided we become. These companies don't make money when we understand one another; they make money when we don't. The deeper the polarization, the higher the click-through rate.

This is a direct threat to the foundations of social trust, which in turn is the foundation of both economic prosperity and democratic self-government. A society whose communication systems are engineered to provoke outrage and reward misinformation cannot sustain either reasoned deliberation or civic solidarity. The corrosion of social cohesion and destruction of mental and spiritual health isn't an accidental side effect of the addiction economy—it is the business model.

Buy-now-pay-later financing, mobile sports betting, algorithmic pornography, and vaping follow the same logic. These aren't unfortunate outliers in an otherwise healthy market. They are the logical conclusion of an economic paradigm that defines value purely by willingness to pay, regardless of whether what's being sold makes life better or worse. A food industry that engineers hyper-processed products to hijack our biology and addict us to sugar, fat, and salt—destroying our health and fueling an epidemic of chronic

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disease—is celebrated for its innovation. Wall Street's high-frequency traders and speculative financiers make billions from strategies that enrich them while rendering the global economy more fragile and crisis-prone.

Entire industries now profit from addiction, instability, and harm, and we treat it as normal because the prevailing ideology tells us that if there's a market for it, it must be good.

It is time to call it out—to recognize that it is not normal, and it is not good.

From Repair to Replacement

The task ahead is not incremental reform but replacement. Market Humanism offers a framework for an economy that measures success by problem-solving, resilience and human well-being—not capital accumulation and extraction. Corporations should earn profits by creating genuine value for people and society, by solving problems—not by exploiting them and creating problems.

Building this paradigm will take work, and we are only at the beginning. We need new metrics to evaluate progress, new economic models based on economic reality rather than textbook fantasies, and institutions that make cooperation between markets and governments real, while guarding against capture. Keynesianism in 1936 and neoliberalism in 1970 both began as incomplete blueprints; so will Market Humanism. But the old orthodoxy is spent. It is time for it to yield to a new model that realigns prosperity with human dignity.

A Choice with Existential Stakes

This is not an academic exercise. An economy that treats people as atomized consumers and measures success by consumption alone cannot sustain democracy. It breeds spiritual poverty amid material wealth and leaves civic life too hollow to defend itself.

Markets are not the enemy. They are humanity's greatest social technology for solving problems. But under neoliberalism, they have been misaligned—designed to extract rather than empower. Market Humanism seeks to reclaim them for human needs.

We don't have to accept the system we have today. We can choose to build a system founded on shared moral values, grounded in an economics of the real world, and with policies and institutions that serve to make our lives and those of future generations better.

History shows that paradigms do change. They shift not because the old guard chooses to give them up. They shift because reality forces a choice and people with courage choose a new path.

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