

# Book Review: Why Capitalism?

by Blog Admin

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*The financial crisis caused many to reconsider the desirability and feasibility of capitalism. In **Why Capitalism?**, renowned economist Allan Meltzer addresses what he feels are key issues that critics of capitalism routinely fail to adequately recognize. These include the power of incentives and capitalism's adaptability to varying morals, ideals, and cultures. Meltzer argues that while capitalism is not perfect, it is the best option for providing growth and personal freedom. **Gerardo Serra** finds while the conciseness and the clarity of the book certainly make it an appealing reading, the author has surprisingly little to recommend when it comes to policies.*



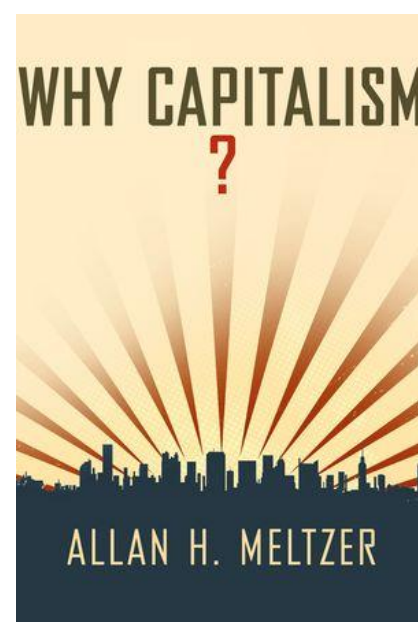
**Why Capitalism? Allan H. Meltzer. Oxford University Press. April 2012.**

Against the claims of all those academics, journalists and commentators who see the end of capitalism on the horizon, *Why Capitalism?* aims at showing not only that this is not the case, but that capitalism still is, and will be at least in the foreseeable future, the best way of satisfying human needs. The author, Allan H. Meltzer, is an institution in the American economics profession. Born in 1928, over the decades he has combined a stunning academic career with a wide range of influential roles in U.S. policy-making bodies, such as the Treasury, the Congress and the Federal Reserve, and in international organisations including the World Bank. Specialising in macroeconomics, financial economics and political economy, his best known work is a monumental two volumes history of the Federal Reserve.

The book is a short pamphlet divided into five sections. The introduction is followed by chapters on regulation and the welfare state, deficit finance, the effectiveness of aid, and the pernicious consequences of inflation. The main message of the book is that "capitalism is the only system that achieves both economic growth and individual freedom" (p. ix).

The specific treatment of the broad themes addressed in each chapter follows with remarkable consistency from its premise, via the application of basic economic theory to real world scenarios. The key word here is 'incentives': regulation is doomed to fail whenever it distorts the market incentives of firms and industries (p. 42), aid is ineffective 'unless performance incentives are included in the [...] lending programs' (p. 116), leading to the conclusion that 'Capitalism works best in a stable environment that permits people to achieve their plans' (p. 145), that is, in an environment which provide people with the right incentives. In some occasions, when more consideration is given to the gap between economic theory and political practice, the economic tone of the book is mildly softened, but this does not happen too often, and never to the point of seriously challenging the main idea. Even if the focus of most chapters is on the United States, it is evident that the underlying message applies to everyone. In spite of all its problems, for Meltzer the U.S. provides an obvious departure point, given that according to him 'no country has shown greater ability than the United States to sustain growth and freedom over long periods' (p. 56).

In the early pages of the book, Meltzer stresses his intellectual debt towards thinkers such as Immanuel Kant, Karl Popper, Friedrich von Hayek and Milton Friedman. While the influence of the latter two is evident, especially in the continuous appeal to individual freedom as both the necessary condition for economic



prosperity and the most important end of public policy, the use of the former two's ideas is somehow oversimplified. The rich intellectual heritage of Kant, for example, is compressed and evoked every few pages only to remind all those who have been striving to design a 'perfect' society that no such thing, given the imperfect moral nature of human beings and institutions, is possible.

Furthermore, the Manichean dualistic distinction between the virtues of the market and the evils of planning does not seem particularly useful in order to envisage authentically innovative solutions to today's difficulties. In fact when it comes to policy-making, leaving aside some old recipes, Meltzer has surprisingly little to recommend. While the clarity of the book certainly makes it an appealing reading, there is little new material inside.

With no doubt most of Meltzer's claims would meet the agreement of the mainstream economics profession, while on the opposite side of the ideological spectrum readers are very likely to see in Meltzer an uncompromising apology of free-market ideology. Whether 'Why Capitalism?' is the expression of good old common sense or just another way of legitimising an unsatisfactory state of affairs is left for the readers to judge.

In fact this book remains a passionate manifesto for freedom, both optimistic and pragmatic, written by someone who has had the opportunity to experience first-hand the odds of policy-making, and yet believes that markets provide the best available solution to most economic and social problems.

Certainly the adamant clarity of the arguments, their simple, accessible presentation and the terse language show the author's life-long experience and commitment as a successful teacher and policy-maker. His book works brilliantly as an undergraduate introduction to the virtues of free-markets, and as a compact summary of a certain kind of wisdom for those social scientists who share its basic value premises. However those who were sceptical of the capacity of free-market democratic capitalism to serve human needs are likely to remain so.

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