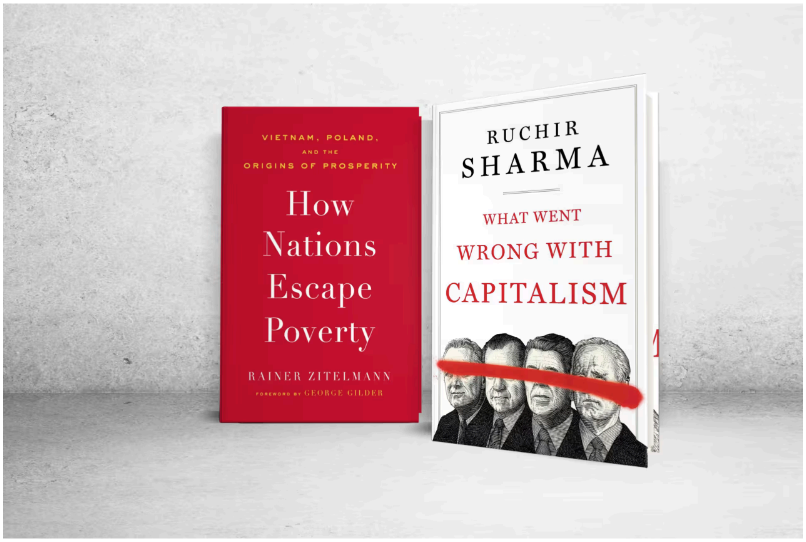
Politics: Ruchir Sharma's 'What Went Wrong With Capitalism'

Plus Rainer Zitelmann's 'How Nations Escape Poverty.'

By Barton Swaim Follow

June 21, 2024 3:32 pm ET



The pre-eminent problem facing nearly all Western liberal democracies in the 21st century—this is one way to put it, anyway—is that their political leaders have become pathologically obsessed with mitigating risk. Risk means that something could go wrong and that when things do go wrong somebody gets the blame. The problem, as we learned during the recent pandemic, is that risk mitigation can bring about more damage than the thing you wanted to avoid.

Fear of risk has, over the past half-century, robbed American capitalism of its capacity for robust growth. That, at any rate, is how I read Ruchir Sharma's superbly written and cogently argued "What Went Wrong With Capitalism."

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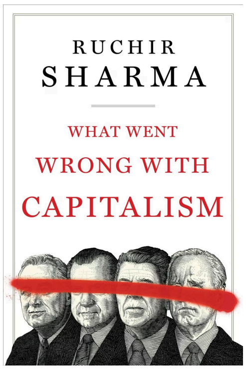
Mr. Sharma's contention: In the mid-1970s, the Federal Reserve began flooding the U.S. economy with

What Went Wrong with Capitalism

By Ruchir Sharma

Simon & Schuster

384 pages



money to ward off any hint of downturn; the private sector responded by taking on unnatural levels of debt; and Congress and regulators adopted the attitude that any big company looking wobbly had to be rescued. Meanwhile every part of government grew—even during the 1980s, when progressives claim it shrank. In time, the U.S. government created a kind of safety net for large corporations, which increasingly put their resources toward lobbying and other forms of self-protection.

That deficit spending tends to encourage growth is, of course, a core tenet of Keynesian economics. But John Maynard Keynes's original prescription, Mr. Sharma reminds us, was that governments should borrow and spend to counter weak demand in hard times but to save in good times in order to manage the next downturn. Policymakers over the past half-century, however, have rejected the saving part of Keynesian doctrine and felt that they had to juice the economy in good times, too.

Leave aside the obvious and overwhelming consequences for the U.S. government—$34 trillion in debt, massive and permanent peacetime deficits, $800 billion-plus spent on interest alone, and so on. The consequences for economic growth are equally dire. Here Mr. Sharma, chairman of Rockefeller Capital Management's international business, makes the book's most important point. For decades liberal economists ridiculed anyone who claimed that lowering government spending would improve overall economic growth or who doubted that pumping money into the economy was good for growth. More money in the economy, they pointed out, by definition expands it; how is that not pro-growth? As years went by and no calamity arose from constant deficit spending, the Keynesians seemed to have further reason to laugh at their critics.

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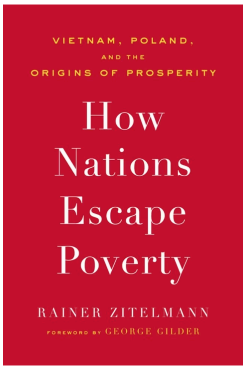
How Nations Escape Poverty: Vietnam, Poland, and the Origins of Prosperity

But the real effect of easy money and permanent deficits, Mr. Sharma contends, is long term: financial markets distorted by trillions in misallocated capital. Decades of loose monetary policy have made the

By Rainer Zitelmann

Encounter Books



American economy—and the same is true of the other debt-soaked economies of the developed world—chronically lethargic. Multinational corporations, which, in an easy-money economy, can live on debt for years, have put more and more of their resources into activities that have nothing to do with their products and services. "The United States now has one manager for nearly every five workers," Mr. Sharma writes. "The C-suite has expanded to include Chief Officers of everything from Analytics and Digital to Collaboration, Customers, Ethics, Sustainability, Learning, and Happiness. And every chief needs his or her administrative minions."

The macroeconomic upshot: Recessions happen rarely, but growth and productivity are almost always anemic.

Expected recessions, like Godot, never show up: "A Promised Slump Refuses to Appear," announced a front-page headline in this newspaper two weeks ago. No one's going to complain about the infrequency of recessions, but Mr. Sharma makes a strong case that they can have what economists Ricardo Caballero and Mohamad Hammour once called a "cleansing effect," in which badly managed and unproductive companies die or get folded into better ones.

If Mr. Sharma describes the enervation of wealthy nations that attempt to insulate their economies from risk and failure, the German social scientist and entrepreneur Rainer Zitelmann, in "How Nations Escape Poverty: Vietnam, Poland and the Origins of Prosperity," relates what happens when poor nations with onerous planned economies scrap their plans and open themselves up to trade.

The depth of poverty into which the victorious communists plunged Vietnam after the fall of Saigon in 1975 would be difficult to exaggerate. Once an exporter of rice, by 1980 it couldn't grow enough to sustain its own population. For several years Vietnam was almost the poorest nation in the world. In 1986 the ruling party—which, unlike some Western governments one might name, had sense enough to see what wasn't working—began a series of reforms known as Doi Moi ("innovation" or "renovation"). The regime lifted restrictions on private manufacturing, abolished internal customs checkpoints, eliminated most subsidies and price controls, denationalized businesses, and returned land that the state had confiscated.

The turnaround wasn't instant, but nearly so. GDP growth shot up to 7% or 8% in the 1990s, rates of poverty plummeted and life expectancy improved. By the mid-2010s, Vietnam had become, despite continuing restrictions on speech and other freedoms, one of Southeast Asia's largest manufacturing hubs.

Mr. Zitelmann tells a similar story of economic unshackling in Poland, which in the space of three decades went from one of Europe's poorest states to one of its wealthiest, in time besting some European nations that had never fallen under Soviet control. I hold no brief for Vietnam's political class, which still considers itself communist. But the recent histories of both Vietnam and Poland teach the same lesson: that a nation can do wonders when it stops trying to manage itself into perfection and shield its citizens from risk.

Appeared in the June 22, 2024, print edition as 'The Hard Lessons of Easy Money'.