

# Capitalism, Alone' Review: Inclined Toward Inequality

It's not enough to presume that capitalism inherently favors the rich. The possibility that policy is to blame deserves a deeper look.



Occupy Wall Street protesters in 2013. PHOTO: GETTY IMAGES

By

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Thirty years on from the collapse of communism in Europe, the Western market system is the only viable game in town, and yet it's beset by a host of economic, social and political challenges. This is perfect fodder for deep analysis and intellectual creativity. Alas, that's not we get from economist Branko Milanovic. Instead, "Capitalism, Alone: The Future of the System That Rules the World" is a

stunted recitation of the political and economic crises afflicting Western capitalism, an unpersuasive account of China's economic model as a potential alternative and an implausibly dystopian vision of global capitalism's future.

Mr. Milanovic's starting point is correct enough. The demise of the Soviet Union, combined with Deng Xiaoping's reforms in China, marked the end for the sort of command economics that used to vie with Western markets. All economies of any import now claim to bear at least a passing resemblance to the classical definition of capitalism—a decentralized system of production utilizing legally free labor and privately owned capital.

American capitalism—in which labor and private capital are both freest and any centralizing impulse weakest—is the purest form of the system embodied by any large economy. But variations have also emerged. Beijing increasingly presents China as an alternative in which a much stronger state seeks to harness a much weaker market. (Mr. Milanovic calls this “political capitalism” without any apparent sense of irony.)

Probing deeper into America's “liberal meritocratic capitalism,” Mr. Milanovic, the former lead economist in the World Bank's research department, discerns a new form of market economy. Its defining features are a rebalancing of net income toward capital and away from labor; concentrated ownership of that capital; a growing overlap between the income-rich and the asset-rich; and the development of a new upper class that perpetuates itself via marriage within its ranks and the transmission of wealth from parents to children. All of these phenomena have existed in previous eras in various combinations, but never all at once before now.

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CAPITALISM,  
ALONE

*The Future of the System  
That Rules the World*

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CAPITALISM,  
ALONE

By Branko Milanovic

*Belknap/Harvard, 287 pages, \$29.95*

Admirers have glommed onto Mr. Milanovic's analysis of inequality (which draws heavily from Thomas Piketty and his acolytes) as a mark of brilliance. But, as in Mr. Piketty's "Capital in the Twenty-First Century" (2013), inequality feels important here only because Mr. Milanovic accepts uncritically those measurements that almost certainly exaggerate its extent, and then deems it a defining feature of new-style markets. Indeed, Mr. Milanovic's definition of liberal meritocratic capitalism is a system that "displays features that enhance inequality."

This leaves unexamined important questions about whether government policies create whatever inequality actually exists. "About a decade ago, it became noticeable that the share of income from capital in net national income was rising," Mr. Milanovic writes. Yet in the nearly three pages Mr. Milanovic devotes to discussing this phenomenon, he never mentions the 2008 financial panic, the Great Recession or the policy responses to those events. A treatment of rising wealth inequality surely ought to account for the role of monetary policy in inflating the value of assets held by the very rich—which might in turn raise questions about private capital's true level of freedom in post-2008 America and whether inequality is endemic to capitalism. None of that is here.

Similar qualms haunt the chapter on China's form of capitalism as a competitor to America's. China, especially under Xi Jinping, does not obviously satisfy the classical definition of capitalism. Labor isn't properly free when independent unions are suppressed and large numbers of Chinese, deprived of legal residence permits, are relegated to the economic underworld of the industrialized cities where they live. Allocation of capital remains heavily skewed by state-owned banks, and private enterprises are fully under the sway of the Communist Party. Mr. Milanovic glosses over those shortcomings, but his description of the Chinese economy more or less rings true. Political capitalism, he writes, is characterized by a bureaucracy that "has

as its main duty to realize high economic growth”; is unconstrained by a binding rule of law that might obstruct that goal; and exercises a high degree of control over the private sector.

He identifies two weaknesses in this model: the contradiction that a technocratic and supposedly rule-following elite is in fact called on to bend any rules necessary to goose growth; and that this unconstrained bureaucracy tends to produce a level of corruption that undermines the regime’s legitimacy. But he misses another big problem: whether political capitalism can deliver high growth rates once the economy reaches a certain plateau. China may already be hitting that limit—with unpredictable political, economic and social consequences.

Things improve when Mr. Milanovic confronts the only question that really matters in the West right now: how to resolve the tension between the demands of a capitalist economy and the resistance of an increasingly skeptical public. His suggestion that the free movement of labor in the global economy be tempered by restrictions on new arrivals’ eligibility for welfare benefits may be the least-bad option for open-borders economists and immigration restrictionists.

Less persuasive is his prognostication for global capitalism’s future. He foresees in capitalism’s triumph a world unmoored from any moral imperative other than that greed is good (a sentiment he attributes to Billy Graham, of all people), plagued by insoluble inequality for the miserable masses and beset by the rampant corruption he believes global capitalism facilitates. This can be averted only, he argues, if we limit political-campaign donations by wealthy individuals and arrange new tax favors for the middle class. After slogging through 235 pages of dense prose, one would hope for a bigger payoff.

For an economic model that succeeds politically because it is fundamentally rooted in optimism—in its ability to harness the hopes and ambitions of billions of individual workers and entrepreneurs striving for a better, more fulfilled life—Mr. Milanovic’s dark future seems an unlikely fate.