

What are the biggest threats facing capitalism today?

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Renationalisation campaigns might be among the most high-profile attacks on the capitalist system, but the greatest threat is the steady erosion of the free market through excessive regulation and taxation Credit: Dan Kitwood/Getty

Over the past three decades, capitalism has reasserted its strength. Never before in the history of mankind has global poverty been in such rapid or sharp decline. In China, where 45m people starved to death at the end of the 1950s as victims of Mao's socialist experiment (the Great Leap Forward), hundreds of millions have risen from poverty to the middle class, beneficiaries of free market economic reform. Although the state-run economy remains a major force in China, it has been progressively pushed back. With every new freedom that has allowed markets and private enterprise to flourish in China, hunger and poverty have decreased. According to the World Bank, the percentage of Chinese citizens living in extreme poverty fell from 88 per cent in 1981 to about 1 percent today.

Venezuela chose a different path entirely. Hugo Chávez's attempt to establish "socialism for the 21st century" was as catastrophic as any socialist experiment of the past hundred years, all of which failed – without exception. This total failure was not limited to communism; the same is true of the "democratic socialism" implemented in Britain and Sweden in the 1970s.

With the collapse of communism at the end of the 1980s, people all over the world recognised the superiority of capitalism. Nevertheless, anti-capitalist resentment not only persists, it has actually intensified since the outbreak of the financial crisis in 2008. In their responses to the crisis, politicians, the media and intellectuals are in almost unanimous agreement: The market has failed, we need more, not less, government intervention.

In fact, the financial crisis is not, as is often claimed, the result of deregulation and market failure, but of government intervention. After the stock market bubble burst in

2000, the Fed (the US central bank) implemented radical interest rate cuts, causing a new bubble, this time on the property markets. However, massive central bank intervention is by no means proof of the failure of capitalism.



Anti-capitalist sentiment remains strong despite all evidence that it is the best system for the advancement of human prosperity Credit: NICHOLAS ROBERTS/AFP

Another factor which led to the US housing bubble and ultimately to the financial crisis was that banks granted subprime loans to homebuyers who should never have qualified for loans because of their poor credit ratings. This lending was encouraged by politicians, foisted on banks by legislators, and secured by semi-state-owned banks, Freddie Mac and Fannie Mae. US banks were afraid of racial discrimination lawsuits if they could not prove that they satisfied government-imposed quotas on loans to minorities. It was not unbridled markets, but government regulations and the central bank's interventions that created the conditions for the financial crisis.

Having misdiagnosed the causes of the financial crisis, the "medicines" prescribed to treat it are also wrong. The financial crisis was caused by extremely low interest rates, politically motivated government market intervention and excessive debt accumulation. And yet, all over the world, political leaders are fighting back with even lower interest rates, even greater state intervention and even more debt. The underlying problems have not been solved, they have simply been kicked into the long grass. If the financial crisis flares up again, the blame will no doubt, erroneously, be laid at the door of capitalism.

The greatest threat to capitalism is not that Western governments will embark on large-scale, overtly socialist nationalisation programmes, it is that they are increasingly clipping capitalism's wings, replacing it with centralised, redistributive policy agendas. Central banks are now acting more like planning authorities; they no longer restrict their efforts to merely guaranteeing monetary stability, but are also seeking to neutralise market forces.

In order to save the euro, the European Central Bank adopted Mario Draghi's "whatever it takes" pledge and partially suspended the price mechanism, which is so crucially important for the market economy. In effect, the eurozone no longer has true

market interest rates. However, this has not curbed European states' excessive indebtedness – in fact, it has exacerbated it. At the same time, considerable misallocations have emerged in the economy and on property markets.



Central bankers are now economic planners whose actions go far beyond their original remit. Credit: Kai Pfaffenbach/REUTERS

In the past, socialist governments nationalised private enterprises. Today's planned economies are not achieved via nationalisations, but by politicians increasingly meddling in the affairs of businesses and using fiscal and labour market policies, regulations, subsidies, and prohibitive legislation to deprive them of their freedom to act. Financial and health systems around the world are the most regulated industries. Is it any surprise that these two most heavily regulated sectors of the economy are failing so badly?

Under the guise of “fighting climate change”, politicians in many countries are increasingly intervening in their economies. In this, Germany leads the way, gradually transforming its energy industry into a planned economy. In the medium term, the costs of Angela Merkel's “energy transition” are estimated at €1 trillion. This is a low estimate: It does not take into account the cost of decommissioning Germany's coal-fired power plants once the country's nuclear power plants have been shut down by 2022. Having targeted the energy industry, the automotive industry is now in the crosshairs of Germany's politicians. Here, the political debate now revolves around when to ban all combustion engines, with serious consequences for the automotive industry. Free markets and free trade are currently under threat around the world, as demonstrated by Donald Trump's protectionist policies.

Instead of recognising that capitalism and globalisation have reduced poverty, Western countries are engaged in emotionally charged debates about the “gap between the rich and the poor”. Demands for state-led redistribution are intensifying. The global success of French economist Thomas Piketty's *Capital in the Twenty-First Century*, in which he calls for an 85-per-cent wealth tax, is ample proof of this. The same holds true for the rise of the loud and proud socialists Bernie Sanders in the United States and Jeremy Corbyn in Great Britain.

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