

**The
Economist**

New capitalism

Magic by numbers

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Capitalism 4.0: The Birth of a New Economy in the Aftermath of Crisis. By Anatole Kaletsky. *PublicAffairs*; 396 pages; \$28.95. Bloomsbury; £15. Buy from Amazon.com, Amazon.co.uk

BY NOW it is hard for authors to stand out in the growing library of books on the causes and consequences of the financial crisis. Anatole Kaletsky manages to do so, thanks largely to the breathtaking ambition of "Capitalism 4.0", and partly to the unusual optimism that infuses it.

As the book's subtitle suggests, Mr Kaletsky, an editor at the *Times* who worked at *The Economist* in the 1970s, argues that the financial crisis marks a transformation in modern capitalism, one from which a new, improved version will evolve. He regards it as a turning point equivalent to the Napoleonic wars, which augured the beginning of the classical era of laissez-faire (or Capitalism 1.0); the Depression (which spawned the government-heavy era of Capitalism 2.0); and the stagflationary 1970s (from which rose the free-market Capitalism 3.0).



Like the changes that have gone before, capitalism's latest transformation will alter the relationship between markets and governments and between politics and economics. It is the ability to adapt that secures capitalism's survival. Version 4.0 will be as different from the recent free-market fundamentalism as Reaganomics was from the New Deal.

In a potted history that is admirably broad in its reach but annoyingly corny in its nomenclature, Mr Kaletsky describes capitalism's evolution over the past 200 years, particularly the changing role of government. The managed economies of Capitalism 2.0 were based on a fundamental faith in governments' ability to solve economic problems. Version 3.0, after the 1970s, romanticised markets and distrusted government. Within each of these broad categories, Mr Kaletsky describes the mini-shifts, Capitalism 2.1, 2.2, etc.

This history, together with the software analogy, is relatively uncontroversial. This changes when Mr Kaletsky analyses the financial crisis. The recent bust was not, he argues, only or even mainly the inevitable consequence of bankers' greed or credit excesses. Much of the build-up in debt that is now widely disparaged as a cause of the crisis was "fundamentally justified and irreversible" thanks to broad structural shifts in the world economy, such as globalisation and the dampening of inflation. Only in the last year or two before the crisis did the boom spin out of control, and even then by not nearly enough to fell the global economy by itself.

The reason a run-of-the-mill financial bust became a catastrophe, Mr Kaletsky claims, was due largely to the stunning failures of one man: Henry Paulson, George Bush's treasury secretary. In a passionate *ad hominem* attack, called "The Economic Consequences of Mr Paulson" (after Keynes's 1925 pamphlet "The Economic Consequences of Mr Churchill", a devastating critique of Sir Winston's defence of the gold standard), Mr Kaletsky excoriates Mr Paulson, particularly his decision to allow the investment bank Lehman Brothers to fail. The hyperbole is spectacular. Mr Paulson, the book claims, came "closer to destroying capitalism than Marx, Lenin, Stalin and Mao Zedong combined."

Destruction was averted. The last section of the book describes what Capitalism 4.0 might look like. Oddly, given his contempt for policymakers' decisions during the crash, Mr Kaletsky is full of optimism about what they can now achieve. Provided that governments are willing to use the tools at their disposal—such as zero interest rates and fiscal stimulus—he expects a rapid and

robust recovery.

Skating breezily across swathes of economic policy, his theme is that new capitalism will be defined by experimentation. Governments will become far more involved in some areas of the economy, such as macroeconomic management and financial regulation. But they will retreat from others, such as education and health.

Pedants will find plenty to quibble about in Mr Kaletsky's analysis of the past, let alone his predictions. His tirade against Mr Paulson is unseemly as well as unconvincing. But his book is full of clever insights. For sheer intellectualchutzpah and creativity, it is well worth reading.

Books and Arts

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