

Kaletsky, Anatole - Capitalism 4.0

Bloomsbury, 2010, [Economics] Grade ★★★★★

Are you worried that capitalism will be dismantled following its alleged failure during the recent financial crisis? You shouldn't worry too much because, as Anatole Kaletsky puts it, "capitalism doesn't break because it bends". Democratic capitalism has self-improvement in its DNA. In fact, capitalism has suffered and survived harrowing crises before and each time transformed into a new and better version. Anatole Kaletsky is well known in economic circles. Some know him as the "Kal" of GaveKal Capital, others as a leading columnist of the Financial Times, The Economist, The Times or Reuters. He is a global authority on matters of economics and politics and eminently suited to analysing capitalism's past and future.

Kaletsky applies the notation of computer software to the history of capitalism. The versions so far are 1, 2 and 3, each with its set of major updates labelled e.g. 3.1, 3.2 and 3.3. Roughly speaking, version 1 was the liberal free-trade epoch from Adam Smith in the late 18th century to the Great Depression of the 1930's. This was replaced by version 2 a.k.a. the Keynesian era until the stagflation of the 1970's. Then version 3 took over, with its Friedman-inspired liberalism spearheaded by Ronald Reagan and Margaret Thatcher. This latest version had reached its "market fundamentalist" update 3.3 by the time of the financial crisis of 2007-08. And here we are, stumbling into Capitalism 4.0 but still struggling to make out its shape.

What's needed now, argues Kaletsky, is not the dogmatic view of previous versions where either the market or the government were seen as the best solution to any economic problem. In our next stage of development, the pros and cons of each must be acknowledged. Capitalism 4.0 must

involve a mixed economy. Government finances in Western societies being what they are, in future we must accept a smaller yet more active government. The complexity, ambiguity and unpredictability of our modern economy require adaptive and creative hybrid solutions.

What I love about Kaletsky's work is how he explains some very complex issues, like the role of fiat money, in a plain and sensible way that avoids sensation and aids understanding. He offers an optimistic view of humanity and our ability to invent new solutions to emerging challenges. He argues even more compellingly for democratic capitalism as the best vehicle for self-improvement in human societies. All in a wonderfully fluent language and dazzling logic.

The book is not without flaws, however. I was surprised to find several factual errors in areas I happen to be familiar with. Few would agree e.g. that Benoit Mandelbrot was the sole inventor of chaos theory or that behavioural economics is mainly about crowd psychology. Details for sure, but when sloppy research is revealed it makes it harder to trust any and all of the presented facts. There are also some logical inconsistencies in the book. If Kaletsky advises economic thinkers to embrace ambiguity, why heap so much blame for the financial crisis on the actions of one man, those of Treasury Secretary Hank Paulson? And if he sees the future as genuinely unpredictable, why make so many explicit predictions about the world of Capitalism 4.0?

These are however beauty spots on a book that should be mandatory for any economic policy maker. I only wish our elected officials could match Anatole Kaletsky in his nuanced and cool-headed understanding of where we are and where we need to be going.

Alf Riple, December 18, 2013