

BOOKS

What's Wrong with Capitalism?

Don't you wonder why the rich keep getting richer and the poor poorer? Why money is never available to the men of ideas, courage and competence but always confined to the men of wealth, wealth and wealth? Like all good economists, Rajan and Zingales of the Chicago School show us through a rigorous intellectual exercise what we already know intuitively: vested interests have taken charge and are controlling the economic system. But the way they have looked at and

analysed this phenomenon is more than just revealing; it ruthlessly exposes the sham. This book comes at a time when our implicit and blind faith in the capitalist system is breaking as we see fat cats getting away with financial holocaust, exterminating in milliseconds the savings and dreams of millions of smaller investors and citizens, while protecting their personal purses.

Capitalism, the authors say, is not being allowed to flourish and is being hijacked by incumbents—owners, managers, politicians—within the system. Why? Because the strong economic system of capitalism is controlled by a weak political system which incumbents can tweak. Under creative destruction, an essential part of capitalism's growth and evolution, there will always be losers and gain-

ers. The gainers of yesterday, therefore, will try their best to influence policies so that they don't turn into the losers of tomorrow.

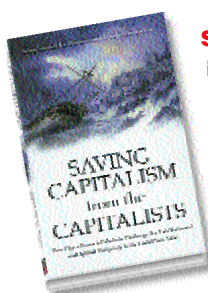
The authors argue that freeing finance is a way out of this debauchery. This can be done by creating powerful institutions that ensure a free flow of money—strong laws that are enforced, for instance. But that does not and possibly will not happen because, "...the powerful see them as undermining their power. The economically powerful are concerned about the insti-

behaviour. First, in an economy starved of finance, those who have this scarce resource would ideally like to lend it to those who can either produce a collateral or those who have connections. Second, the risk gets higher if an entrepreneur, even when he's honest, misreads the market signals and loses the investment. So, there isn't much for a financier to do: "His role is simply that of a gatekeeper, keeping the rich within the gates safe while keeping out those who would compete for

efficient system that puts the focus on people and generates prosperity for all. The authors' solutions—tax property, not income; create a safety net for workers, not owners; free finance—are worth debating, maybe even following. Alas, the gap between the capitalist incumbents and the people is so large today that it seems impossible to bridge it, however persuasive the case—I wonder which government has the guts to change inheritance laws to break up family dynasties controlling public companies, for instance.

But by exposing and analysing this system, the authors have provided us with a strong lever to understand, if not oust, the disease of Incumbentism altogether—we are better able to appreciate how crudely the war against Iraq is filling the coffers of Bechtel, whose directors are corporate-political incumbents, or closer home, why none of those engaged in white-collar financial crimes will be jailed or why rich farmers will never be taxed.

One curious side-effect of this awareness is that it eases the anguish. This book makes for a compulsive, gripping, delightful, educative and insightful read. ||



Saving Capitalism from the Capitalists: Unleashing the Power of Financial Markets to Create Wealth and Spread Opportunity

By Raghuram G. Rajan and Luigi Zingales
Random House
369 + xi pages, £ 25
Rating ★ ★ ★ ★

tutions underpinning free markets because they treat people equally, making power redundant. The markets themselves add insult to the injury. They are a source of competition, forcing the powerful to prove their competence again and again. Since a person may be powerful because of his past accomplishments or inheritance rather than his current abilities, the powerful have a reason to fear the markets."

This, the authors argue, is not a problem of ill intent, but one of rational

resources." As a result, financiers seek to mitigate their risk by preventing new, perhaps more efficient entrepreneurs from getting in by raising entry barriers—the authors illustrate this with the example of India's small community-restricted diamond trade. It is this distortion that's wrong, they say, not Capitalism itself.

But any system, in theory, is a wonderful system. Remove the bureaucratic stranglehold and Party corruption from Socialism and you could have a very

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