

### ***Review of The Cost of Capitalism by Robert Barbera***

I was searching for a recent economic book to make sense of the 2008-2009 global financial crisis. I came across *The Cost of Capitalism* on Amazon.com. The book is a great summary to understand how we got to the point we are at. And also a balanced view of why we need to understand and embrace a middle ground between the economic philosophies of John Maynard Keynes and Milton Friedman.

Keynes lived and wrote during the Great Depression of the 1930s. He saw firsthand the folly of a hands off government approach during times of financial crisis. Milton Friedman won the Nobel Prize in 1976 for his work on monetary policy as being the crucial driver in controlling economic outcomes. Friedman believed in free markets and limited government.

Two economists— Joseph Schumpeter and Hyman Minsky- were familiar names to me, but I had not read their writings. Schumpeter and Minsky's ideas were central to Barbera's book.

One of Schumpeter's main theories was that capitalism undergoes periods of *creative destruction*. Older, less efficient industries implode. As capital is reallocated, newer, more efficient industries emerge. Minsky was a student of Schumpeter and financial crisis. He observed that the economy often swings between robustness and fragility.

Deep recessionary pressures emerge when there has been an unsustainable level of debt build up. Minsky believed as Keynes did that the government must act as a lender of last resort to prevent financial crisis from becoming a full-fledged depression. He also believed that central bankers (FED) need to act not only to control monetary policy and inflation. But that they should also carefully watch credit spreads to prevent asset bubbles from reaching dangerous levels.

What I found particularly interesting about this book was the comparison of the Great Depression to the 20-year Japanese deflationary cycle from 1989- present. Many doomsday economists continue to predict a repeat of the Great Depression scenario for the global economy over the next 10 years. Japan is a recent example of why this will likely not occur. Even though the stock market drop in Japan rivaled the drop during the Great Depression, the unemployment rate never climbed above 6% in Japan versus 25% in the US during the Great Depression.

The key difference was Japan's commitment to propping up their banking system— government bailouts/zombie banks. Although this is not a great outcome, it is a far better outcome than the deflationary debt cycle that characterized the Great Depression with many bank runs and failures.

The cost of capitalism according to Barbera is that we must accept at times government intervention; bailouts and increased regulation. The danger is that this sentiment overshoots and capitalism becomes socialism or worse. Capitalism remains the most effective economic system for increasing the standard of living and raising millions out of the devastation of poverty.

Barbera states that no one can accurately predict the future. But we must all make decisions daily with some speculation about what the future holds. The problem is that we have a tendency to project the recent past into the future. The reason this is a problem is that the future usually does not unfold in a way that mirrors the recent past. Barbera's hope is that we can restore capitalism but can learn from the destructive effects of allowing asset bubbles to reach tipping points in the future.

