

# Review Essay

## Political Capitalism

Capitalism, Alone: The Future of the System That Rules the World. *By Branko Milanović*. Cambridge, MA: Belknap Press of Harvard University Press, 2019. 304 pp. Illustrations, tables. Hardcover, \$29.95. ISBN: 978-0-674-98759-3.

The Age of Interconnection: A Global History of the Second Half of the Twentieth Century. *By Jonathan Sperber*. New York: Oxford University Press, 2023. 816 pp. Illustrations. Hardcover, \$39.95. ISBN: 978-0-19-091895-8.

Global Development: A Cold War History. *By Sara Lorenzini*. Princeton: Princeton University Press, 2019. 296 pp. Illustrations. Hardcover, \$29.95. ISBN: 978-0-691-18015-1.

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Reviewed by Marc Levinson

“Capitalism,” etymologists say, is rooted neither in Adam Smith nor in Karl Marx but in *The Newcomes*, a long-forgotten novel by William Makepeace Thackeray, in which a fallen French nobleman regains his dignity when the rising price of railway shares restores his “sense of capitalism” (Project Gutenberg ebook edition, p. 1016). It’s one of those you-know-it-when-you-see-it kinds of words, meaningful mainly when set against “socialism,” a word first used in the 1820s to describe collective ownership of property. Capitalism has taken on all sorts of meanings since Thackeray coined the term in 1854, describing everything from the repression of miners by late-nineteenth-century robber barons to the venture-capital-fertilized blossoming of Silicon Valley. The three histories discussed in this essay all address its meaning in the modern world economy. None believes that future capitalism will be like capitalisms past.

At the very start of *Capitalism, Alone: The Future of the System That Rules the World*, economist Branko Milanović lays his finger on what he considers the most important characteristic of the last thirty years of world history. Globalization has reshaped not only economic life but political and social life as well. “The fact that the entire globe now operates according to the same economic principles—production organized

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for profit using legally free wage labor and mostly privately owned capital, with decentralized coordination—is without historical precedent,” Milanović writes (p. 2). In other words, capitalism has conquered.

Yet neither classical nineteenth-century capitalism, dominated by a rentier class that rarely lifted a finger, nor social democratic capitalism, which offered greater social mobility and a somewhat more equitable distribution of income in the decades after World War II, has much relevance today. The contesting ideologies in the age of globalization, as Milanović sees it, are liberal capitalism, which corresponds closely to the modern American version, and political capitalism, which might be described as capitalism with Chinese characteristics. Liberal capitalism is distinguished by the dominance of a new class, a self-styled meritocracy of people who enjoy both high labor income and high capital income and who translate their prosperity into political power. Under political capitalism, on the other hand, the state actively shapes the economy while leaving prices, wages, and many investment decisions to the private sector. “Bureaucracy (which is clearly the primary beneficiary of the system) has as its main duty to realize high economic growth and implement policies that allow this goal to be achieved,” Milanović writes (p. 91). The key distinction is that under liberal capitalism the state is “an ‘enabling’ and passive actor,” while under political capitalism the state intervenes in the economy actively and directly (p. 127). Countries embracing this model, such as Vietnam, Singapore, and Tanzania, have consistently experienced faster economic growth than those adopting liberal capitalism, Milanović contends.

Both forms of capitalism must grapple with internal contradictions. Political capitalism is marked by lawlessness, as bureaucrats are given free rein to do what they deem best. As authoritarian states open their economies to the world, making it easier for individuals to spirit ill-gotten gains abroad, corruption tends to run rampant. Milanović insists that “corruption is linked to globalization no less than is the free movement of capital and labor” (p. 131). Corruption, though, exacerbates inequality and makes it hard to keep the populace satisfied, conflicting with the political imperative of ensuring that the benefits of this sort of benevolent authoritarianism are widely shared.

Liberal capitalism, in contrast, depends on strong productivity growth and innovation to raise living standards and to ensure social mobility. It risks rigidity: “once technological progress slows down, and it becomes increasingly difficult to generate new fortunes, the durability of the upper class will be reinforced” (p. 64). Perversely, the migrants attracted by social welfare programs in liberal economies complicate efforts to reduce income and wealth inequalities, as current citizens rebel against newcomers who are diluting the benefits they

expect. “The existence of the welfare state is not, in the longer run, compatible with full-scale globalization that includes the free movement of labor,” Milanović writes (p. 156).

In reality, of course, the distinction between political capitalism and liberal capitalism is by no means clear-cut. Laws enacted in the United States in 2022 authorized bureaucrats to determine which new semiconductor plants will enjoy tens of billions of dollars in subsidies and showered tax benefits on manufacturers of renewable energy equipment and electric vehicles that meet thresholds for domestic content in their products—policies far removed from the liberal capitalism Milanović describes. Meanwhile, the Chinese government appears content to allow large parts of the economy to function with minimal political oversight, even as it pays close attention to sectors it deems sensitive. The discussion ignores countries such as France, Japan, and South Korea, where versions of political capitalism seemed firmly entrenched three decades ago but have since developed in more liberal directions. If anything, most major trading countries seem to have adopted a blended version of capitalism in which the mix of liberal and political aspects is subject to frequent adjustment.

Milanović relies heavily on data analysis rather than historical research, but his arguments are not technical and are expressed in plain English. The survival of liberal capitalism, he says, depends on reducing the concentration of wealth and income and increasing intergenerational mobility. Just as likely, he suggests pessimistically, is that the capitalist elite will use its economic and political influence to transform liberal capitalism into political capitalism, only with private-sector meritocrats calling the shots instead of government officials.

In *The Age of Interconnection: A Global History of the Second Half of the Twentieth Century*, historian Jonathan Sperber paints on a larger canvas: he purports to tell the history of the world between the US atomic bombings of Japan in 1945 and the terrorist attacks on the United States in 2001. These years, he declares, constitute a period “distinct from the present, in some ways rather distant from it, yet also at the origins of our contemporary conditions” (p. 1). To emphasize the interconnections that he deems the unique characteristic of his long half-century, Sperber organizes his story in a sort of matrix. Each of its thirteen chapters is thematic, addressing a topic such as disease, migrations, or utopias. Within each chapter, he separately discusses what he considers three distinct eras: the “postwar era,” from 1945 through 1960; the “age of upheaval,” in the 1960s and 1970s; and the “late-millennium era” of the 1980s and 1990s (p. 5). Geography is not his organizing principle, but he frequently illustrates his points with examples from individual countries or regions.

Sperber pushes traditional political and diplomatic history into the background: government-to-government relations play a relatively minor role in his book. While his themes provide some interesting insights—few historians would have dedicated a chapter to increased leisure time as a worldwide development in the postwar decades—he swamps the reader with fairly trivial anecdotes that seem intended mainly to prove his transnational bona fides. For example, after a thorough discussion of how changing gender roles affected education and labor markets around the globe in the second half of the twentieth century, we suddenly delve into same-sex relations in South Asia and North Africa. Does homosexual conduct in Indonesia really rate a paragraph in an English-language history of the world? The author's revelation that in Indonesia "there were never more than a hundred people involved in gay rights activity at any one time" suggests not (p. 354). We learn that the labor movement had a role in the overthrow of authoritarian rule in Benin at the beginning of the 1990s, and that a hotel furnishing bottled oxygen was built at 14,000 feet as Argentina sought to get in on the growth of ecotourism, but it is not obvious why the reader needs to know these things. Sperber's difficulty in separating wheat from chaff has led him to write a very long book—one that often fails to differentiate the interesting from the important.

Business historians are likely to focus on Sperber's discussion of economics, which begins by making a distinction between countries that emphasized central planning and those that rejected it during the first twenty years after World War II. Both approaches seemed successful as the entire world prospered and economic growth proceeded "at a remarkable pace across different economic systems and levels of development" (p. 130). Sperber emphasizes, though, that "the market economy of the postwar era was not exactly free; it was administered and tightly regulated" (p. 132). The rise of free-market capitalism came later.

By the 1960s, countries with corruption-ridden planned economies, including many developing countries that sought to fuel economic growth by substituting domestic manufactured goods for imports, were struggling to improve living standards, while in market economies the emerging middle class continued to flourish. In Sperber's view, it was the sharp rise in inflation during the 1970s, which he attributes to higher oil prices, that undermined regulated capitalism: "The true impact of the oil price shocks was their role in spurring the growth of a deregulated global market economy" (p. 148). Unfortunately, his discussion of regulation is superficial. He does not consider the possibility that regulations that may have made eminent sense in the aftermath of World War II were obsolete by the 1970s, retarding growth and hindering innovation.

He concedes, however, that “it does seem futile to yearn . . . for the postwar period of heavily regulated capitalism” (p. 167).

Sperber sees the globalization of finance and manufacturing as unavoidable consequences of deregulation. As these new economic arrangements emerged, he writes, “it was not so much that the existing social hierarchy was reshaped, as that the entire hierarchy began to shift. . . . The essential feature of this new class structure was the growing numbers of people moving from the ranks of those protected from the world market to those subjected to it” (pp. 304–5). Those are the same winners Milanović identifies: individuals able to earn high incomes from capital, labor, and, if they have married well, their spouse’s well-paid labor. While Sperber may be less pessimistic about the future of capitalism, he shares Milanović’s concern that political systems will struggle to cope with public disappointment if, as seems likely, slower economic growth becomes the norm around the world.

Sara Lorenzini’s delineation of competing Cold War capitalisms differs from Sperber’s. As she writes in *Global Development: A Cold War History*, “by the 1970s, the United States and the Soviet Union were conservative superpowers that had more in common with each other than with the Global South” (p. 143). Her admirably concise book traces the efforts of wealthier countries to “develop” or “modernize” poor ones during the second half of the twentieth century, whether to atone for the sins of colonialism or to acquire allies in the contest for global power and influence. She documents the growth of “development” as a field of expertise, whose practitioners “were the product of a homogeneous cultural and intellectual climate dominated by trust in a modernizing revolution” (p. 93). These experts sought to create industrial, urbanized, mechanized societies with Western values, and they did not think historical knowledge or local understanding were relevant. “Projects like land reclamation and river basin development were ideologies in material form, embodying culturally specific values and ideas of social progress,” Lorenzini writes (p. 170).

By the late 1960s, such ambitious efforts to transform impoverished countries came under attack by advocates of a new international economic order. Now it was the developing countries that did the demanding, seeking such concessions as a moratorium on foreign debt payments, support for cartels to control the prices of raw materials, tighter state controls on foreign investment, and the lowering of rich countries’ barriers to poor countries’ manufactured exports. The talk of a new order largely ignored capitalism, and foreign capital was often regarded as exploitative. Governments freely used import permits and allocations of foreign currency to determine which capitalist ventures

they would tolerate—an approach generally criticized by the World Bank and other development institutions.

All this became moot in 1982, when Mexico's default on foreign-currency debts threw the world's largest banks into crisis and triggered a decade-long depression in highly indebted countries. Poverty reduction and global justice ceased to be the focus of foreign aid. Instead, as Lorenzini puts it, "the neoliberal political economy became the real new international economic order" (p. 164). Policies such as deregulation, privatization, tax reduction, and limits on the power of labor unions "promoted situations of economic security that granted investors as much as possible" (p. 164). In effect, economic development became a job for capitalism. But this was often monopoly capitalism, overseen by well-connected recipients of state assets or concessions rather than the vigorous competition that market-oriented policies promised. In a few countries, the neoliberal paradigm brought strong economic growth and higher living standards. In most, though, the state lacked the ability to oversee the private sector, the plutocrats ran wild, and the majority of citizens gained little or nothing.

Lorenzini's story ends with the end of the Cold War in the late 1980s, just as the globalization of manufacturing was getting started. Development economists were taken by surprise; no one had anticipated low-wage countries becoming massive suppliers of consumer goods and industrial inputs almost overnight. Capitalism, in the form of often-despised multinational corporations organizing global supply chains, helped many developing countries, especially in Asia, generate the productivity growth and higher living standards that foreign assistance had been unable to achieve.

The movement toward a heavy state role in economic management is gaining speed everywhere, as new programs in notionally capitalist countries are massively subsidizing selected domestic manufacturing industries, notably semiconductors, pharmaceuticals, and electric vehicles. New types of protectionist barriers, like added tax preferences for offshore wind farms using US-made components, are on the rise. So far, though, such measures seem to be advancing with no master plan; the omniscient bureaucrats who administer Milanović's political capitalism at the highest levels of government don't yet call the shots in Washington, Brussels, Tokyo, and Seoul.

As all three authors observe, the rise of liberal capitalism was preceded by the wide diffusion of free-market ideas. "Hyperglobalization requires as its intellectual superstructure an ideology that justifies money-making (of any kind)," Milanović writes (p. 163). Sperber points to the role of Milton Friedman and other free-market ideologues in purveying "a uniform, consistent message with no qualifications" to a

broad public (p. 615), while Lorenzini describes how free-market thinkers used the debt crisis of the 1980s as an opportunity to force developing countries to implement their ideas. On the other side of the argument, while economists are slowly coming to understand that their traditional models of international trade pay too little attention to the workings of companies' value chains, the costs and benefits of globalization in a world replete with subsidies and government directives are rarely subject to rigorous analysis. Perhaps the intellectual superstructure of political capitalism is yet to be erected in the liberal capitalist economies. Or perhaps it is under construction, and we just haven't noticed.

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