

# POLITICAL ECONOMY

IN THE CAROLINAS

## IS CAPITALISM SUSTAINABLE?

*Michael Munger*

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Book Review by:

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**H**ere is a basic truth in the affairs of men: there are pivotal people at pivotal times. The great F. A. Hayek played that role when he wrote *The Road to Serfdom*, and of course Adam Smith played that role when he authored *The Wealth of Nations*, as did John Maynard Keynes with *The General Theory* and John Kenneth Galbraith with *The Affluent Society*. In the late 1970s on TV and in the best-selling book *Free to Choose*, Milton Friedman emerged as the strongest voice for economic liberalism in his generation. Friedman had great charm on camera and felicity with the pen. He was also in possession of razor-sharp mind and quick wit. If there ever was a pivotal person at a pivotal time for economic liberalism, Friedman was that person in the economics profession and in the general intellectual culture from 1980 until his death in 2006.

Since that time, a common question has been: who will be the next Milton Friedman? There are several contenders, but Michael Munger of Duke University would be on any list one could imagine. For the past thirty years, Munger has consistently explored the topics in this volume in academic and popular writing and in podcasts and video presentations. These topics include analyses of the market process, the political process, and the interaction between the political and market sectors. As someone deeply influenced by James Buchanan, Munger believes there is hope in institutional reform.

This set of essays begins provocatively enough by asking whether capitalism is sustainable. This topic is not new to him: it actually goes back to at least Joseph Schumpeter, if not Adam Smith himself. As Munger puts it, capitalism is fragile because of the adverse impact of government actions on business and because entrepreneurs find it almost irresistible to seek government privileges to protect themselves from the vagaries of the process of creative destruction. Yes, Munger argues that the creative destruction of the market delivers amazing wealth creation. But the use of state-created privileges to secure profits—that is, rent-seeking—is too tempting for these businesses to turn down. Rent-seeking isn't capitalism, but if capitalism inevitably succumbs to the temptation of rent-seeking, then capitalism is unsustainable. The system logically devolves to cronyism. Munger reasons that in the current political situation, the logic of the market process leads even the most successful entrepreneur to reach a point where the marginal dollar invested in seeking honest profits will have a lower rate of return than the dollars invested in rent-seeking.

I will come back to this argument of Munger's shortly. *Is Capitalism Sustainable?* contains not only variations on this argument about a tension deep in the system of limited government, private property, and markets, but several insightful essays explaining the great benefits of markets (if we can have them), the dysfunctions of politics, and how transaction-cost-reducing technologies and rule changes can change the logic of the situation. There are reasons for hope. Regulations, Munger argues, should not block innovations, and government officials must

also not play favorites.

Price has primacy of place in economic analysis, and Munger explains as well as anyone how the price system works to guide individuals in their exchange and production activities, how profits lure them, and how losses discipline them. On the other hand, interests have primacy of place in the analysis of politics, as interests must align to form minimum winning coalitions to get things done in the political arena. And, in the playing out of politics as exchange, the logic of the median-voter theorem more often than not produces outcomes in which “good” political decisions are in fundamental conflict with economic policies that are “good” from the point of view of wealth creation and widely shared prosperity. But rules, and specifically rule changes, can bring new hope and opportunity. We can work toward permissionless innovation.

Even in the best of environments, though, Munger explains, there will be deep tensions between our innate moral intuitions and the demands that the extended market order places on our moral sensibilities. The liberal order and open society are not “natural”: they require work to sustain and maintain. We may not need to know details about their operation to experience the great benefits of productive specialization and peaceful social cooperation, but we may need to have an explicit intellectual appreciation of spontaneous order in order to maintain the system. Politics is too often a blunt-force instrument while economic reasoning is a subtle and refined tool for exacting analysis, and this means the two clash. Practical politics and moral intuitions cut against the arguments for capitalism, but the great wealth

and progress and the lifting of the least advantaged up from misery and oppression—evident to anyone who is willing to look at the evidence—will give pause to the critics.

Munger's great strength as a writer and thinker is that he is willing to give his intellectual opponents their full hearing and to even concede critical points. But this also enables him to respond in gentle and harsh ways about the errors critics are committing and the logic and evidence overwhelmingly supportive of capitalism as a foundation for the Good Society.

Munger answers his question "Is capitalism sustainable?" with a hopeful case for the affirmative. The argument about the forces undermining capitalism was not about inevitability, but probabilities. There is a certain logic pushing in that direction, but other forces can be marshalled in the opposite direction. As we look at the menu of socially desirable political and economic systems, it is always valuable to ask about their feasibility. There must be some intellectual sorting mechanism to move from philosophical ideas we deem as desirable, to those that are in fact feasible, and further to those that are viable. This is one way to reinterpret Munger's discussion of the difference between a destinationist and directionist perspective in the political economy of reform: the directionist is focused on this sorting from desirable to feasible to viable, whereas the destinationist is stuck expounding the desirable.

*Is Capitalism Sustainable?* is a collection of essays from a serious scholar of political economy who has engaged in a sustained effort of over thirty years to understand the human condition and the role that

alternative institutional arrangements play in the ability of human beings to realize the great benefits of capitalism. It is a highly recommended set of readings for all students of philosophy, politics, and economics. The arguments are not just of historical interest: the issues Munger raises are timeless and exceedingly relevant to our contemporary discussions on the benefits of and tensions in the liberal project of capitalist economics and constitutionally limited government.