



Why Capitalism?

Allan H. Meltzer

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A review of the headlines of the past decade seems to show that disasters are often part of capitalist systems: the high-tech bubble, the Enron fraud, the Madoff Ponzi scheme, the great housing bubble, massive lay-offs, and a widening income gap. Disenchantment with the market economy has reached the point that many even question capitalism itself.

Why Capitalism? Details

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From Reader Review Why Capitalism? for online ebook

Sarah Johnston says

I agree with the points made in the book, I just felt it wasn't very coherent and it was slightly repetitive.

Charles Berteau says

Review carried forward from "I'm Reading"

There is much to credit in this defense of democratic capitalism. It reminds readers of many meaningful points regarding the rule of law (not regulators); the inevitable outcomes of poor regulatory design; that humanity is the weak link. It forcefully defends capitalism versus alternatives that inevitably become coercive. Further, it blasts both US political parties, as they deserve, for spending more than we can pay and not honestly accounting for it ("We have two political parties. One wants to spend more and tax the rich. The other is willing to spend more but wants to tax less.")

The overall message is sound: current policy is unsustainable; we need honest NPV-based government accounting to allow the electorate to make tough choices that otherwise we all avoid; and that some guiding structure to enforce future-aware fiscal sanity is critical.

But the book itself is hard to read - incredibly tedious and repetitive for such a short book. It's not the crisp primer I was hoping for.

Vasco says

Although oversimplifying some of its examples, the book manages to define what capitalism is and isn't, it's great advantage over other systems, its limits, and the implications of regulations on it. A good, short read.

James says

Pittsburgh native Allen Meltzer has written a very brief defense of democratic capitalism. He has written to the average layman so it's an easy read so far.

Matt Thackeray says

A simple critique of the current lurch away from neo-Liberalism. It takes a more neo-classical approach, along Hayekian lines, mixed in with a dose of Kant for Philosophical good measure. It makes soon good points about the growth the world economy has seen over the past 25 years and some prescient points about the rise of populism and economic nationalism. The points about regulation and government intervention are

a little laboured and ignore the times when it has worked, and taxation on cigarettes and public health programmes for example.

Lora says

3.5 Stars

Not hard to follow but some details are a little tougher to follow.

Good introduction into capitalism, why it works and it's faults.

Govind Chandrasekhar says

The title drew me in. I needed some reassurance that capitalism is the best way forward, especially after having ruminated over several of its flaws while reading Fault Lines. The core idea of this book is that markets are more intelligent than central planners can ever be, that regulators are fallible despite good intentions since they suffer from the same flaw that central planners do, and that capitalism cannot be blamed for the mistakes that human beings make. The book gets a bit technical at times, so don't dig in unless you're up for a slightly dense read.

Gaurav Dubey says

Good book to understand how and why capitalism works. But do not completely find myself agreeing with the author on certain points

Frank Bowley says

Though I agreed, with much of Meltzer argument, I found his style very off putting. I'm professionally an economist, and philosophically supportive of liberal capitalism, but this book makes capitalism seem the product of the most zealous tea party member.

Philski says

Solid book, addresses capitalism independent of its implementation in various countries. The primary thrust is that capitalism is the only system which has been reliably shown to produce both growth and liberty. The second main tenet is that markets are dynamic where legislation is static, so while legislation may aim itself at a shortcoming or something it considers wrong in capitalism, the market can shift to avoid it. Finally, the third tenet is that legislation should focus on the belief or intent which is generating problems, not on creating walls or barricades which can be circumvented.

He repeats early and often that "capitalism without failure is like religion without sin" and backs it up with various cases and statistics worldwide. Allowing companies to fail is good for capitalism. When the government intervenes and determines things are "too big to fail" it causes multiple companies to decide the "safest" course of action is to simply become "too big to fail" and enjoy the security net. Similarly, the government encouraged risky loans leading up to the housing bubble popping - but because these were encouraged by the government companies looked at the short-term balance sheet, not the long term. Finally he talks about how government uses tricks in budgeting to hide long-term costs of pensions, various "reforms" leading to further deficit, and this has been going on since WWII; prior to WWII running a deficit was rare outside of times of war.

Interesting book especially the way it divorces capitalism from the government style.

Nate says

"The United States government is on course in 2009, 2010, and 2011 to run the largest peacetime deficits in its history..." Hmmm, okay Mrs. Palin, I mean Mr. Meltzer, you are aware that the three 3 years you listed are not actually peacetime years right? This was by far the kookiest statement in the book, but was certainly not the only one.

Overall I am confused by some of the gaping holes in this short little book on capitalism. The author starts off the book with lots of ambiguous words and phrases for groups of people with opposing viewpoints, but doesn't really go in depth to them at all; it left me wondering whom is he exactly talking about. The only times I have heard the initial opposing viewpoints he references are from cheap attention getter headlines or a small sound bite from a TV program desperate for viewers. This author is a professor at one of the top universities in the country, is he really debating the extremely lame headlines from CNBC as if they are a bellwether for credible economic and financial viewpoints? I don't get it. For those who don't know, CNBC is to financial news as the National Enquirer is to long form journalism.

The book is filled with oddities and his retorts often seem extremely 1-sided and empty. Much more disturbingly though, is that they seem void of any in depth research, and often appear to be made up or misinformed.

For instance, with his view of why regulation girds capitalism, he writes, "Sarbanes-Oxley legislation reduced the attractiveness of U.S. equity markets. Many foreign firms left." Again, the use of very ambiguous language with the word "many." Personally I would replace it with "few," but whatever.

The reason-the already very questionable-small foreign firms left was not because the law prevented them from doing business, but rather that they could not do business AND follow the law. Sarbanes-Oxley required these (and all public) companies to be held accountable for their financial controls and the reporting of their published numbers. So what did the foreign firms who were cooking the books do: they left the exchanges. There are many arguments against Sarbanes-Oxley, but the one he specifically chooses to use is poor for his argument since one could easily surmise that the regulation of Sarbanes-Oxley actually weeded out corruption in this instance.

Okay so maybe his research, or lack thereof, was a little off on SOX. Fair enough, but he goes onto to just completely make up findings from studies.

For instance, "Outlawing cocaine has not prevented addicts from finding 'crack houses.' It should not surprise anyone that addicts find the house but the police rarely do. The reason is the addicts have a strong incentive but the police have a large disincentive. The criminals who trade in cocaine are likely to kill police who raid their outlets." Okay so he just made that up. There is no study stating that police rarely find crack houses (or if there is, he opts to not provide it in his reference section). No biggie, he was just using it as additional support to communicate to the common reader some of the caveats about regulation.

Fair enough, but that's far from the only instance of made up information. A chapter later he states "...but many who benefit from affirmative action programs are not prepared for the standards they face at the best colleges and universities and drop out of school." Next chapter, "In our 50 largest cities, about half the children do not earn a high school diploma from a public high school." He provides sources for some of his data, but oddly not the stuff that seems fictitious-geez, I wonder why?

Well maybe during those chapters he was feeling a bit creative and just opted to make up some information. What about when there is actually some data to go off of. Sadly, he doesn't seem to fair much better there either. When stating a viewpoint on improving education he says "Monetary rewards increase incentives, and many students develop useful work habits." Unfortunately the studies he's mentioning concluded that the monetary incentives only work in the short term and fail to produce any desirable long term effects, such as creating students who value a lifetime education.

When discussing some successful reform he talks about the changes to welfare in 1994. How it worked because it reduced the number of recipients and "...that children learned that adults work." Ahh, is that what they learned.

Well the reform that enacted the changes he's mentioning actually happened in 1996, not 1994; and the reason it reduced recipients was not because the program put the recipients to work, but rather because it made the requirements for being on welfare much stricter. It also added a time limit for how long someone could use the program, and it gave states more authority on the disbursement of the funds. Today the number of welfare recipients and the amount of money an individual receives (adjusted for inflation) is the lowest in the history of the program. However, food stamps-which have less stringent requirements-are at their highest rates. The success he mentions of this reform did not happen. Correlation does not mean causation, and anything more than a casual glance at the data would illustrate that.

I really found some of his views interesting: I agreed with many and found others thought provoking. I even liked his style of writing, but unfortunately I cannot recommend a book that is (quite shockingly) so poorly researched and edited. I read this book as a precursor to his much larger books on the federal reserve, but now I am questioning if I should even check those out.

Francois Cloutier says

Critiqué de toutes parts, le capitalisme avait besoin d'une défense claire et vigoureuse, ce dont tente de faire Meltzer. Ce petit ouvrage aborde un nombre étonnant de sujets : crise des subprimes, échecs socialistes, le rôle de la Federal reserve, pourquoi un retour à l'étalon-or n'est pas souhaitable (malgré ce qu'en pense Ron Paul), les politiques du Fonds monétaire international, l'aide aux pays pauvres par le World Bank, la corruption, le copinage, les mauvaises décisions politiques, etc.

Trois points me semblent synthétiser les idées principales de l'auteur.

1. Selon le principe de Kant, les hommes sont imparfaits moralement. Le capitalisme, contrairement au socialisme, ne tente pas de faire une rééducation morale qui aurait été décrétée par un groupe select d'intellectuels.
2. Les régulations (réglementations) visant à encadrer le marché sont difficiles, car le marché trouve des moyens de les éviter et/ou de s'appropriier les organismes régulateurs. Les bonnes intentions politiques ont parfois des conséquences imprévisibles et/ou désastreuses.
3. La politique "too big too fail" est un désastre, car elle va à l'encontre d'un principe fondamental du capitalisme : le capitalisme sans échec (failure) est comme une religion sans péché. Cela ne fonctionne pas bien. Les banques et autres entreprises doivent donc assumer les conséquences de leurs investissements risqués et les faillites qui peuvent survenir, ce qui est le signe d'un capitalisme en santé.

Meepspeeps says

I think this is a good primer on the advantages of capitalism as an economic system. The author demonstrates how capitalism has lifted more peeps out of poverty than other systems. He acknowledges that peeps who benefit from capitalism need to tax themselves to support necessary government services including programs for those who are unable to participate in the economy at a level that supports themselves and their families. His comments about self-discipline and other "blame the survivor" wording irritated me because peeps who are poor don't necessarily lack self-discipline. However, his overall points are good. He spends time on the USA political system stalemate and talks about the demise of USA power due to failure to make tough bipartisan choices. He gives good examples of how bad regulation leads to circumvention by those newly regulated. I strongly recommend it to peeps who favor socialism, or more socialism than the USA has today.

Lani M says

Let's just say this is an introduction to capitalism equipped by concise fact here and there.

If anything, he kept reminding Kant's quote to us, that humans are imperfect and make mistakes. So, do not blame the system blindly.

Puri Kencana Putri says

"Capitalism works best in a stable environment that permits people to achieve their plans. To achieve the growth and freedom that only capitalism provides, country must adopt rules that force policymakers to plan for the medium term and prevent inflation."

This is the last part of the book that I'm trying to grasp at the moment. Meltzer, the writer as well as the defender of the idea why we need capitalism is trying to persuade the readers including me about the wise

elements of capitalism in our lives. He underlines Kant and Kantianism on people and system that aren't perfect and likely to make mistakes. Thus, capitalism needs better environment, so that this ideology can deliver the basic needs; including to ensure freedoms and livelihood in much better ways.

Surely, I have been enjoying all the benefits, access, and basic life with the help of capital approach. I rant about govt policy through social media, wherein many investors put a lot of money to be invested at socmed corporations. I complain so much about poverty, yet I got a soft loan coming from an international bank to renovate my parents' house, I use a fancy computer where in daily I use it to write about human rights violations. Yes, our oxymoron situations can only be happened with these schemes.

Yet, as a preliminary reading this book has brought more thoughts on how we see capitalism with such different standards and values in our insignificant lives.
