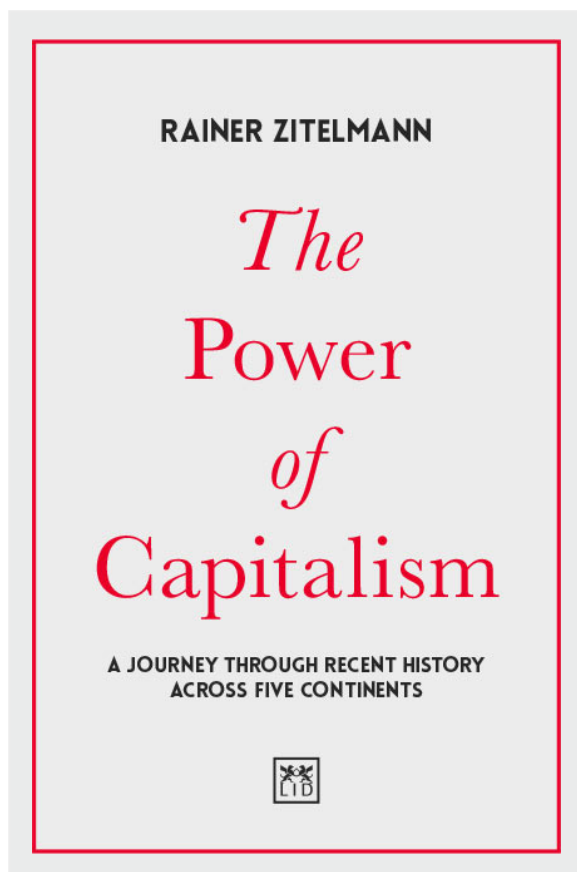


# WHY SO MUCH HATE FOR THE FREE MARKET?

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REVIEWS

The Power of Capitalism: A Journey through Recent  
History Across Five Continents  
By Rainer Zitelmann  
LID Publishing, 2018  
Xiv + 233 pages.



Dr. Rainer Zitelmann is best known to the scholarly world for his outstanding study of Adolf Hitler's economic ideology, now available in English translation as *Hitler's National Socialism*. Originally written as a doctoral dissertation in 1986, it still retains its position as the definitive work on its subject and a remarkable academic achievement. In his study, Zitelmann shows that Hitler believed in a centrally planned economy, and by doing so, Zitelmann confirms the insight of Ludwig von Mises and Friedrich Hayek that National Socialism is a type of socialism; though the form of private property was to a large extent retained, control lay in the hands of the central planners. The fundamental antithesis between the market economy and central planning has remained a constant theme in Zitelmann's work since writing his dissertation. Zitelmann maintains that the market economy is by far the superior of the two systems, and in *The Power of Capitalism*, he applies this insight to a study of the economic policies of a number of countries: China, various nations of Africa, West and East Germany, North and South Korea, Britain and the United States, Venezuela and Chile, and Sweden.

He tells us: "The biggest error that unites socialists of various stripes with the men and women running the central banks is the belief that a few designated master planners are better able to determine what the people need than the millions of entrepreneurs, investors and consumers whose individual decisions, when added together, are in fact far superior to those of any governmental planning agency, central bank or other organ of state control."

One of the most striking illustrations of the superiority of capitalism is the progress of China's economy following the adoption of market reforms

in the 1980s. Conditions in China before then were horrendous. Under the dictatorship of Mao Zedong, foremost among history's mass murderers, "the most ambitious socialist experiment in history started with tens of millions of farmers being forced into working on massive irrigation projects without sufficient food or rest.... The experiment resulted in what was probably the worst famine—and definitely the worst man-made famine—in human history ... [According to one estimate] around 45 million people across China ... died prematurely between 1958 and 1962. The majority died of starvation, while another 2.5 million were tortured or beaten to death." The disastrous failure of the Great Leap Forward did not dissuade Mao from another foray into torture and murder, the Cultural Revolution of 1966 and the ensuing decade.

These disasters make all the more remarkable China's economic progress since that time. China is now a vast and thriving market economy, albeit with considerable government involvement. "While terms such as 'socialism,' 'economic planning,' 'Marxism' and 'Mao Zedong thought' remain in use, they are either rendered meaningless by contemporary misinterpretations or assigned a new meaning in diametric opposition to their original content. This probably contributed greatly to the smooth transition

from a socialist planned economy to free-market capitalism."

One of Zitelmann's most important contributions in the book is his response to an argument that one frequently hears. China today by no means adheres strictly to the free market, a fact of which Zitelmann is not only well aware but on which he insists, and the same holds true of countries such as South Korea. Why, then, should we say that the Chinese reforms demonstrate the benefits of the free market rather than those of a mixed system with considerable state involvement? Branko Milanovic raises precisely this question in *Capitalism Alone*, which I reviewed in the May/June 2020 issue of *The Austrian*.

Zitelmann's apt answer is that you cannot view the economy statically but must instead probe to see what changes when the economy progresses. If you do so, it will be evident that the economy has done better to the extent that the free market has prevailed. The leading authority on the Chinese reforms, Professor Zhang Weiying, "told [Zitelmann] that the biggest misconception in China today is that some politicians and economists believe that the country's impressive growth is the result of a special 'Chinese way' with a high degree of state influence.





## Given the manifest superiority of the free market, why do so many intellectuals reject it?

Professor Zhang stressed to me that it is important to understand that the Chinese economic miracle did not happen ‘because of, but in spite of’ the sustained influence of the state.”

American “progressives” in the style of Bernie Sanders often point to Sweden as an example of the sort of



socialism they favor; do we not find there, Sanders and his ilk aver, a model economy in which the poor and middle class do far better than the bulk of the American people? Zitelmann’s answer is forthright. Sweden isn’t a socialist country at all; by many measures, though not all, it has a freer economy than America. Further, to the extent socialist measures have been instituted, as under the leadership of the unlamented Olaf Palme, the economy has faltered. “Sweden stopped being a socialist country several decades ago—if it ever was one. According to the Heritage Foundation’s 2018 Index of Economic Freedom ranking, Sweden is among the most market-oriented economies worldwide.... The foundations for Sweden’s burgeoning economic strength were laid prior to the social democratic era, between 1870 and 1936. During this period, when Sweden still had a free-market economy and low taxes, its economic growth significantly exceeded that of other European countries such as Germany, Italy or France, with annual growth rates that were twice as high as in the UK.”

Given the manifest superiority of the free market, why do so many intellectuals reject it? In an insightful chapter devoted to this question, Zitelmann mentions Robert Nozick’s theory that intellectuals do well in school because of their exceptional verbal abilities but then in adult life lag behind businessmen who as students finished below them. Entrepreneurial ability far exceeds verbal facility in economic value, and, Nozick argues, intellectuals resent this. Zitelmann isn’t convinced and, like Hayek, instead stresses the affinity of intellectuals for planning: “The failure of many intellectuals to understand the nature of capitalism as an economic order that emerges and grows spontaneously is one key factor [in accounting for their dislike of capitalism]. Unlike socialism, capitalism isn’t a school of thought imposed on

reality.... As the example of China ... shows, free-market capitalism largely evolves spontaneously, growing from the bottom up rather than decreed from above. Capitalism has grown historically in much the same way as languages have developed over time as the result of spontaneous and uncontrolled processes ... Socialism shares some of the characteristics of a planned language, a system devised by intellectuals. Having devised the system, the proponents of socialism then attempt to gain the political power required to put their ideas into action.

The operation of the free market results in vast disparities of income and wealth, and this is not at all to the liking of many leftist intellectuals, who prefer a regime of equality. One of their number, Thomas Piketty, takes the battle between equality and inequality to be the key theme of history. Zitelmann, who has made a special study of billionaires, dissents. What is wrong with these immense fortunes? “A look at the wealthiest people in the world shows that none of them became rich by taking something away from others. Rather, their entrepreneurial activities created value for the whole of society.” He replies to Piketty that “whether capitalism tends to raise or lower the overall standard of living strikes me as far more

important than any putative increase in the inequality of wealth.”

It is unlikely that the intellectuals will be swayed by Zitelmann’s cogent arguments. One further indictment they bring against the free market is that it leads to economic crises. Zitelmann, examining the financial crisis in the United States in 2007–08, puts the blame not on the free market but on the Fed, which artificially lowered interest rates in a way that led to reckless lending. “Artificially low interest rates always have undesirable side effects. Prices—including interest rates which represent the price of money lent—usually provide valuable information for market participants and encourage capital to flow where it is needed. If interest rates are kept artificially low or even abolished (i.e. ... set to zero), this mechanism can no longer take effect.”

Zitelmann’s incisive presentation of the case for the free market is exemplary, and I hope that readers of *The Austrian* will devote to it the attention it merits. ■■■

