



BOOK REVIEW JULY 11, 2023

Why Markets Work

— DOMINIC PINO

A new book tries to explain why people are so hostile toward the source of their prosperity.

MARKETS WORK, SO WHY DON'T PEOPLE LIKE THEM? THAT'S THE BASIC question Rainer Zitelmann tries to answer in his book *In Defense of Capitalism*.

The book is really two books stapled together. First is a systematic demolition of many common arguments against capitalism. This portion is delightfully fun to read. Zitelmann's writing style advances his arguments quickly and concisely, with plentiful references to other sources backing up his claims (the book has over 800 footnotes).

Each of the first ten chapters presents a common anti-capitalist argument followed by an empirical record of whether it is true. Zitelmann destroys claims such as "capitalism promotes selfishness and greed" and "capitalism entices people to buy products they don't need." He does not do so from a theoretical economic point of view. Trained as a historian, Zitelmann relies on the record of the past to adjudicate the truthfulness of anti-capitalist claims.

He writes about how the fall of communism helped to all but eliminate famines worldwide. With the advent of modern agriculture and a global market for food, famines today are rare and almost always man-made, and world hunger declined by 42 percent between 1990 and 2017.

He notes many of the problems with recent income-inequality scholarship and highlights other research showing that happiness is not correlated with equality, especially in developing countries. Historical episodes of inequality reduction often look like war or plague, not holding hands and singing “Kum bah ya.”

Zitelmann comes out especially strong on environmental questions. He points to the abysmal environmental record of East Germany, which once won praise from environmentalists the world over for including environmental protection in its constitution in 1968. The East German government designated all environmental data as classified beginning in 1974, and after 1982, only a handful of top-ranking officials were permitted to view it.

After the fall of the Berlin Wall, the truth came out: East Germany was an environmental disaster zone. It emitted more than three times as much carbon dioxide per unit of GDP as West Germany and ten times as much sulfur dioxide and airborne particles per square kilometer. Half of the major rivers in East Germany were biologically dead, and 70 percent were not safe to drink from. Abolishing capitalism is clearly not good for the environment. The Soviet Union and the People’s Republic of China have similarly abysmal environmental records—if the United States ever did anything on the level of what the Soviet Union did to the Aral Sea, we’d never hear the end of it from the greens.

Zitelmann tells countless stories of creative destruction to counter the idea that capitalism results in invincible monopolies. IBM, Kodak, General Motors, Ford, Microsoft, Yahoo, AOL, MySpace, Nokia, Xerox—none of them turned out invincible after all. Remember the 1998 Compaq-DEC merger? Neither do most people, but it was the largest in the history of the computer industry at the time. The deal “catapults Compaq into the upper echelons of computer makers,” [reported CNN](#) on January 26, 1998. Compaq was bought by HP four years later.

Zitelmann emphasizes that competitors to giant companies, in some cases, begin with employees of those companies leaving to pursue their own ideas. He tells the story of how SAP started in 1972 when IBM employees had an idea for accounting software that the suits at IBM disregarded. After going out on their own, SAP’s founders also developed a unique marketing strategy to get businesses to purchase their software. “It all started because the monopolist IBM did not appreciate new developments quickly enough, and, at the same time, did not give employees, who were better at recognizing new opportunities than the company’s entrenched managers, the chance or the freedom to develop within the company,” Zitelmann writes.

Zitelmann found that anti-capitalist attitudes are linked to a higher propensity to conspiratorial thinking. That was true in all 21 countries surveyed.

Zitelmann's research specialty as a historian is Nazi Germany, and he devotes significant portions of the book to dispelling myths about the Nazis' supposed capitalism. This isn't they-said-national-*socialist* kind of point-scoring, but rather a look at how the Nazis actually thought about economics, which was certainly not free-market. The idea that capitalism started the world wars or the war in Iraq is also dispensed through a methodical recounting of the historical record.

If this all seems a bit German to you, you're not wrong. *In Defense of Capitalism* was originally published in English for an English-language audience, but Zitelmann definitely relies on history from his home country, perhaps to a fault. However, for readers who have become accustomed to Anglo-American defenses of free markets, Zitelmann's German defense may provide a refreshing new perspective, with a different cast of supporting scholars and a new stock of historical examples.

The second half of the book is completely different from the first. It's about survey research that Zitelmann commissioned for the book about people's attitudes toward capitalism. It replaces Zitelmann's lively prose from the first half with a formulaic reporting of survey results and summary data analysis.

That's not to say the results aren't interesting. He finds that it is somewhat unusual for support for free markets to be a defining left-right political issue, as it is in the U.S. In many countries, the self-identified moderate right supports free markets at a higher rate than the far right, but in the U.S., Zitelmann's research found a clear upward trend from left to right. That also means that the moderate left in the U.S. is more supportive of free markets than the moderate left in other countries.

He also finds, "Approval of capitalism is 51 percent higher in the United States when the word 'capitalism' is omitted from the survey items." That label was originally invented by critics of the market economy, so supporters of it shouldn't be too reluctant to discard it. He didn't test alternative labels such as "free markets" or "free enterprise." Instead, he phrased some questions to describe the effects of capitalism without using the word. That was what boosted approval.

Of the 21 countries surveyed, only Poland had a higher approval of economic freedom than the United States. Only five other countries supported economic freedom (the Czech Republic, South Korea, Japan, Argentina, and Sweden). The rest were neutral or negative. He didn't survey India, which would have been a particularly interesting country to gauge, considering its unusual economic history, development potential, and recent surpassing of China in population.

One other thing Zitelmann found is that anti-capitalist attitudes are linked to a higher propensity to conspiratorial thinking. That was true in all 21 countries surveyed. While certain segments of the right in the U.S. have perhaps exacerbated right-wingers' reputation for buying conspiracy theories, it remains the case that people who oppose free markets are likelier to

support various forms of conspiracy theories, such as the belief that rich industrialists secretly control politics.

Comparing the survey evidence from the second part of the book with the historical record from the first, Zitelmann concludes that anti-capitalism is a political religion. He uses that term as Eric Voegelin and Raymond Aron used it, to describe a system of belief that begins with intellectuals and then spreads throughout society. He writes, “Anti-capitalism is not grounded in the realm of reason or rationality—it is primarily a rejection based on emotions.”

Hayek traces the instinct towards social justice and against the market system to earlier stages of civilizational development, when humans lived in small bands of a few dozen people.

Religious believers might bristle at this comparison, since sincerely religious people may use their rational faculties, not emotions, to form their beliefs. Wrestling with the sinfulness of mankind is not exactly a comforting activity, nor is surrendering one's life to serve God. Intellectuals taking up anti-capitalism are often joining the mainstream in a way that is beneficial to their professional advancement.

Zitelmann's conclusion, in some ways, echoes Ludwig von Mises's in his 1956 book *The Anti-Capitalistic Mentality*. Mises essentially concluded that opposition to capitalism is a psychological problem, one that especially affects intellectuals and artists, who are often frustrated by career failure. Mises's explanation is unsatisfying, and his book was described as "profoundly and dreadfully false" by Whittaker Chambers in a letter to William F. Buckley, Jr. after *National Review* ran a review that Chambers thought was too positive.

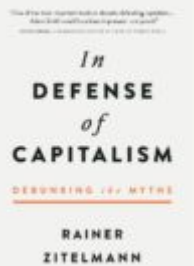
The better explanation for the seemingly irrational rejection of capitalism comes from Friedrich Hayek, in what he calls the "[atavism of social justice](#)." Hayek said that he spent ten years trying to figure out what "social justice" means and concluded it is "nothing more than an empty formula, conventionally used to assert that a particular claim is justified without giving any reason."

He traces the instinct towards social justice and against the market system to earlier stages of civilizational development, when humans lived in small bands of a few dozen people. In that context, "a unitary purpose, or a common hierarchy of ends, and a deliberate sharing of means according to a common view of individual merits" are beneficial characteristics to survival. In a modern commercial town of thousands of people, to say nothing of a globalized market economy, those characteristics are largely impossible to obtain, given the diversity of human wants and needs and the specialization of production. Commercial society has improved our standard of living far beyond what our ancestors could have ever imagined, but that instinct from primitive societies is still hardwired in us, Hayek argues.

Commercial society is still basically brand new in human history and has yet to arrive in the poorest parts of the world, so it shouldn't be a surprise that humans are still adjusting to it. Hayek emphasizes the importance of honestly following the rules that develop in commercial dealings, as that is the new way that fairness is upheld. Violations of those rules, such as fraud or cronyism, also spur resentment of the market economy. In those cases, that resentment can be justified, not on the atavistic reasoning of our ancestors, but on the modern reasoning of the commercial society. Proponents of free markets must be on guard against those violations of the rules of the game.

“Civilization grew—not by the prevailing of that which man thought would be the most successful—but by the growth of that which turned out to be so; and which, precisely because he did not understand it, led man beyond what he could ever have conceived,” Hayek concluded. That’s the wonder of markets, and it’s something that isn’t immediately obvious. For intellectuals who should know better, the political-religion theory of anti-capitalism may make sense. But for the non-intellectuals who were answering Zitelmann’s survey questions, Hayek’s atavism thesis is probably the stronger explanation.

Zitelmann’s defense of markets combined with his research on people’s opinions of markets form a unique book that offers a fresh perspective on the economic system we all participate in. It will challenge skeptics of markets to rethink their views in the face of the historical evidence and inform defenders of markets on how to better communicate the successes of economic freedom. By no means comprehensive, *In Defense of Capitalism* nonetheless provides a wide range of evidence explaining why markets work and why many people continue to be skeptical of them. As Hayek knew well, market defenders will always have work to do.



REVIEWED

In Defense of Capitalism

by Rainer Zitelmann

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