JOURNAL OF ECONOMIC LITERATURE

The Capitalist Manifesto: Why the Global Free Market Will Save the World.

Geoffrey Carliner

January 10, 2024

This is a lively, accessible, even occasionally humorous defense of globalization and capitalism. Filled with data from the World Bank, the St. Louis Federal Reserve, and Our World in Data, with numerous references to NBER working papers and economics journal articles, *The Capitalist Manifesto* argues against left-wing socialists and environmentalists as well as right- and left-wing populists that think globalization and capitalism are bad.

Norberg convincingly observes that since 1990, increasing globalization and market liberalization around the world have led to huge decreases in poverty, infant mortality, and illiteracy rates, and dramatic increases in life expectancy and per capita income. Between 2000 and 2022, extreme poverty fell from 29 percent of the world's population to 8.4 percent, according to the World Bank (p. 18). Life expectancy increased from 64 years in 1990 to 73 years in 2019 and illiteracy rates fell from 26 percent to 13.5 percent (p. 20). Not only China since about 1980 and India since 1991, but many other developing countries have opened their economies to international trade and liberalized domestically, with huge improvements in the well-being of their people.

Norberg's second point is that income growth is more important than income equality. Policies that increase growth will almost always improve the incomes and health of people at the bottom, and eventually result in decreases in pollution (though maybe not greenhouse gases). Policies that increase income equality but decrease growth will result in lower incomes for the bottom within a few years, and make them worse off. Free markets not only optimize the use of existing technology and resources, but perhaps more important, markets provide strong incentives to thousands of inventors and firms to figure out how to do things better. And higher incomes will make the poor better off than more equal but lower incomes.

Has globalization hurt the working class in rich countries? Norberg observes that the number of manufacturing jobs in the United States, Germany, and Japan have been decreasing since the 1970s, and even in China, manufacturing jobs have been decreasing since 2013. The cause has been huge increases in productivity. Industrial production in the United States has more than doubled since 1980, even as manufacturing jobs have declined. Norberg argues that globalization has not been the main cause of the decline in "good jobs" of the past (pp. 84–85).

Norberg admits that deaths of despair from suicide, alcoholism, and drug overdoses among American Whites with a high school education or less, documented by Case and Deaton (2020), are a serious problem. But he blames these deaths on "a dysfunctional and increasingly expensive healthcare system," and on overlapping transfer programs that discourage work and are extremely complicated (p. 110). However, he does not explain why European countries, with more generous welfare systems and government-provided health care, have not experienced similar increases in mortality.

Norberg goes on to defend the top 1 percent as worth every penny that they make. He cites William Nordhaus's (2004) estimates that the profits that innovators and entrepreneurs make in addition to a normal return on investment constitute only 2 percent of the value they create. Moreover, most of the people at the top did not inherit their wealth but created it. Of the 400 people on *Forbes*'s list of richest Americans in 1982, only 69 of the people (or their heirs) were on the list in 2014 (p. 129).

Norberg then attacks industrial policy. He acknowledges that free markets do not provide incentives for basic research, and that the United States may have security reasons for limiting trade in certain items with China. And he admits that "there are successful examples of active industrial policy, especially in some poor countries that use it to catch up with an already known and proven technology" (p. 190). But he cites numerous examples to show that in rich countries, "governments are bad at picking winners, but losers are good at picking governments" (p. 196).

This is also true for China. Almost all of its growth since 1980 has been due to private firms operating in more or less free markets. While the government subsidized inefficient state enterprises, the growth and productivity increases have occurred because of the efforts of capitalist firms responding to market incentives.

In China's tech sector, including in areas where China is ahead of the West, private entrepreneurs relatively free of government regulation, and not government bureaucrats choosing technologies, have led the way. Norberg argues that politicians and others who think that the United States can better compete with China by adopting industrial policies favoring certain technologies have misunderstood why China is equal or ahead in some areas. It was market incentives and not bureaucratic decisions that encouraged innovation.

Many observers in the United States bemoan China's admission to the World Trade Organization. They argue that international trade helped China to grow rich and to become a bigger threat to its neighbors and to the United States. But Norberg notes that isolation has not made Iran and North Korea more peace loving. A poor and isolated China might have become more hostile and belligerent toward the United States. For instance, China hasn't supported "Russia's invasion of Ukraine [with weapons because] it treasures peace and human rights but because it fears secondary sanctions from the West" (p. 221). If trade weren't so important to China, the world might be more dangerous.

Free markets cannot prevent pollution. Government intervention is clearly necessary to discourage negative externalities. But Norberg argues that discouraging growth in general, or international trade and travel in particular, would be terrible. Those would be extremely expensive ways of decreasing pollution and would have drastic effects on the poor, especially in developing countries.

Norberg also notes that because rich countries are on the downward-sloping part of their environmental Kuznets curves, they have much lower levels of air and water pollution than poor countries, except for greenhouse gas emissions. His solution to this problem is not to limit growth or support specific technologies to reduce these emissions, like wind power or electric cars. Instead, governments should impose a carbon tax and let private firms and consumers responding to market incentives figure out the best ways to reduce climate change.

Finally, Norberg rebuts critics of market capitalism who claim that it may make people richer but that it makes them lonelier and less happy. He cites numerous studies showing that loneliness, social isolation, and distrust are negatively correlated with income across countries and within countries as they grow richer over time. He also cites studies showing increasing reported happiness or well-being within countries and across countries as incomes increase.

This volume is a vigorous and entertaining polemic in support of globalization and free-market capitalism with minimal government intervention. It does not include any new research, but assembles a mass of facts and arguments to bolster its case. It is not written primarily for *JEL* readers but rather for our numerate friends, relatives, and students. There is perhaps too much emphasis on the contribution of the rich to economic growth and not enough on how government investments in education, health care, infrastructure and basic research can increase growth or how government intervention can overcome various market failures. But that would undercut the message of this book that growth is good, free markets encourage growth, and many government interventions are counterproductive.