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Stiglitz: Will Capitalism Survive The Wall Street Apocalypse?

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A few days after [writing](#) about how we're not heading towards socialism in the US, Joseph Stiglitz is in Vanity Fair [saying](#) that might not be true about the rest of the world. He argues that the [lesson](#) many countries in the Third World might take from the financial crisis is that capitalism is fundamentally flawed. Following that realization could be a shift back to socialism--maybe not back to old Soviet-style politics once embraced by much of the Third World, but to "a variety of forms of excessive market intervention," Stiglitz says.

It's a trend worth thinking about, but I think Stiglitz takes it a bit too far: He wants to portray the economic [history](#) of the Third World as a pendulum swing from extreme socialism to extreme capitalism, with the pendulum now ready to swing back the other way.

The former Communist countries generally turned, after the dismal failure of their postwar system, to market capitalism, replacing Karl Marx with Milton Friedman as their god. The new religion has not served them well.

I'm going to assume that when he says "former Communist countries," he means countries that were once parts of the Soviet Union. It's true that countries like Estonia, Latvia, and Lithuania have made extremely liberal [economic](#) reforms, and have also experienced massive economic contractions due to the financial crisis. But is there any evidence that they would have done better if they hadn't made those liberal reforms? One can point to several other countries that retained socialist policies, but were just as bruised by the global recession--Ukraine, Argentina, and Ecuador, for example.

More fundamentally, the idea that the developing world has become a libertarian paradise that failed is just not backed up by the facts. The Cato Institute publishes an annual Index of Economic Freedom, that basically gives every country a score based on how close they are to laissez-faire. If you look at [this map](#) of the world according to the Index, you'll see that generally speaking, the countries that were in the Soviet sphere of economic influence during the Cold War still have massive government intervention in their economies--in particular, most of Africa and

Latin America.

If these countries learn the wrong lessons from the financial crisis, it will not be a sea change as much as a continuation of many of the same policies.

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