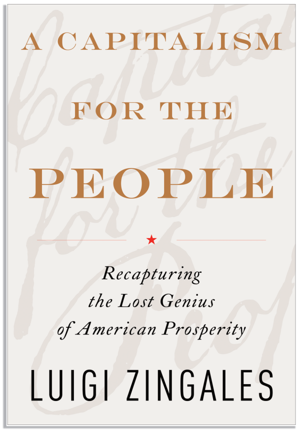

BookReview

Capitalism, Meet Politics

A CAPITALISM FOR THE PEOPLE
BY LUIGI ZINGALES
NEW YORK: BASIC BOOKS, 2012,
260 PAGES

REVIEWED BY DAVID A. PRICE

Economist Luigi Zingales of the University of Chicago's Booth School of Business is like a vocal moviegoer watching a horror film for the second time. He's the audience member who calls out, "No. Not the stairs. *Don't go up the stairs*."

Zingales, a native of Italy, argues in *A Capitalism for the People* that American economic policy is moving in a dangerous direction, toward the "crony capitalism" that he says he witnessed in his homeland. The term refers to an economy in which companies prosper on the basis of their influence with government officials rather than their ability to succeed in the marketplace. Companies with connections may gain in the form of public contracts, subsidies, bailouts, or regulatory protection against rivals. According to Zingales, the system is well entrenched in Italy; in a survey to identify the top factors in business success, managers there ranked "knowledge of influential people" number one.

"It has robbed my home country of much of its potential for economic growth," Zingales writes. "I do not want it to rob the United States as well."

While crony capitalism in the United States is not entirely new — Zingales cites congressional earmarks to specific recipients, which became widespread beginning in the 1980s, as an example — he contends that the movement toward cronyism has quickened here in recent years. But why was crony capitalism far slower to take root in the United States than overseas in the first place? Zingales contends that in countries with significant Marxist political parties, advocates of free-market policies had little choice but to throw in their lot with large businesses that sought to use government for their own ends. The United States did not face that problem. In addition, he says the federal structure of the U.S. government, which grants sizable powers to state and local governments, creates a check on cronyism by forcing jurisdictions to compete with each other.

Zingales does not explicitly indicate when he believes that this country's resistance to crony capitalism started to weaken. He regards the transition as having been well along by the time of the 2007-2008 financial crisis and its aftermath, however. The crisis brought a series of policies that Zingales regards as crony-capitalist in nature, including the Troubled Asset Relief Program, or TARP, which he calls "a pillage of defenseless taxpayers that benefited powerful lobbies," and parts of the Dodd-Frank Act of 2010.

The causes of the change, in his view, are many: Declining real incomes, combined with the rise of a superstar or "winner-take-all" economy, bred a loss of faith in free markets. In the financial sector, financial innovation made it easier to hide implicit subsidies to institutions, while the growth of the biggest banks made the concept of "too big to fail" more plausible to policymakers. The federal government became bigger, creating a greater incentive for businesses to loot it. Indeed, echoing Gordon Tullock, a pioneer in "public choice" analysis, Zingales says the rewards of rent-seeking are so great that companies' spending on lobbying and campaigns is, if anything, surprisingly low; the reason, he suggests, may be that "they are still in their learning phase."

The solutions he proposes center on curbing corporate involvement in politics: not through increased regulation of campaign finance, which he believes could not be effective within the constraints of Supreme Court decisions, but instead through measures that would curb lobbying. These include enforcing antitrust laws with a view to restraining not only the market power of firms, but also their political power — for instance, by imposing limits on lobbying as a condition of a merger that would create a politically powerful company. He favors a tax on lobbying. More ambitiously, he wants a law banning public subsidies to businesses, with enforcement through private class-action lawsuits. Looking beyond law, Zingales wants business schools to imprint on their students an aversion "opportunistic actions that are detrimental to society at large," among them the practice of lobbying for subsidies.

Although the economic benefits enjoyed by politically connected firms have been known to economists at least since George Stigler's famous 1971 article "The Theory of Economic Regulation," *A Capitalism for the People* gives a uniquely accessible and engaging account of the perils of cronyism. If it has a weakness, it is in its less developed policy prescriptions. What, for example, is limited by a limit on "lobbying"? At times, Zingales seems to include any effort to influence policy, even giving factual information to policymakers. Moreover, while teaching business students to abhor subsidies may well be worth trying, it would seem that most students have already made their ethical commitments by the time they reach that point in their education.

Yet Zingales' larger point is convincing: The most durable defense against crony capitalism is not laws, but a social consensus against it. If Zingales is right that cronyism is on the rise, then such a consensus surely will be harder to build once cronyism comes to be viewed, with resignation, as simply business as usual. **EF**