

# Is Modern Capitalism Sustainable?

BY KENNETH ROGOFF

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I am often asked if the recent global financial crisis marks the beginning of the end of modern capitalism. It is a curious question, because it seems to presume that there is a viable replacement waiting in the wings. The truth of the matter is that, for now at least, the only serious alternatives to today's dominant Anglo-American paradigm are other forms of capitalism.

Continental European capitalism, which combines generous health and social benefits with reasonable working hours, long vacation periods, early retirement, and relatively equal income distributions, would seem to have everything to recommend it—except sustainability. China's Darwinian capitalism, with its fierce competition among export firms, a weak social-safety net, and widespread government intervention, is widely touted as the inevitable heir to Western capitalism, if only because of China's huge size and consistent outsize growth rate. Yet China's economic system is continually evolving.

Indeed, it is far from clear how far China's political, economic, and financial structures will continue to transform themselves, and whether China will eventually morph into capitalism's new exemplar. In any case, China is still encumbered by the usual social, economic, and financial vulnerabilities of a rapidly growing lower-income country.

Perhaps the real point is that, in the broad sweep of history, all current forms of capitalism are ultimately transitional. Modern-day capital-

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ism has had an extraordinary run since the start of the Industrial Revolution two centuries ago, lifting billions of ordinary people out of abject poverty. Marxism and heavy-handed socialism have disastrous records by comparison. But, as industrialization and technological progress spread to Asia (and now to Africa), someday the struggle for subsistence will no longer be a primary imperative, and contemporary capitalism's numerous flaws may loom larger.

First, even the leading capitalist economies have failed to price public goods such as clean air and water effectively. The failure of efforts to conclude a new global climate change agreement is symptomatic of the paralysis.

Second, along with great wealth, capitalism has produced extraordinary levels of inequality. The growing gap is partly a simple byproduct of innovation and entrepreneurship. People do not complain about Steve Jobs's success; his contributions are obvious. But this is not always the case: great wealth enables groups and individuals to buy political power and influence, which in turn helps to generate even more wealth. Only a few countries—Sweden, for example—have been able to curtail this vicious circle without causing growth to collapse.

A third problem is the provision and distribution of medical care, a market that fails to satisfy several of the basic requirements necessary for the price mechanism to produce economic efficiency, beginning with the difficulty that consumers have in assessing the quality of their treatment.

The problem will only get worse: health care costs as a proportion of income are sure to rise as societies get richer and older, possibly exceeding 30 percent of GDP within a few decades. In health care, perhaps more than in any other market, many countries are struggling with the moral dilemma of how to maintain incentives to produce and consume efficiently without producing unacceptably large disparities in access to care.

It is ironic that modern capitalist societies engage in public campaigns to urge individuals to be more attentive to their health, while fostering an economic ecosystem that seduces many consumers into an extremely unhealthy diet. According to the U.S. Centers for Disease Control, 34 percent of Americans are obese. Clearly, conventionally measured economic growth—which implies higher consumption—cannot be an end in itself.

Fourth, today's capitalist systems vastly undervalue the welfare of unborn generations. For most of the era since the Industrial Revolution, this has not mattered, as the continuing boon of technological advance has trumped short-sighted policies. By and large, each generation has found itself significantly better off than the last. But with the world's population surging above seven billion, and harbingers of resource constraints becoming ever more

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apparent, there is no guarantee that this trajectory can be maintained.

Financial crises are of course a fifth problem, perhaps the one that has provoked the most soul-searching of late. In the world of finance, continual technological innovation has not conspicuously reduced risks, and might well have magnified them.

In principle, none of capitalism's problems is insurmountable, and economists have offered a variety of market-based solutions. A high global price for carbon would induce firms and individuals to internalize the cost of their polluting activities. Tax systems can be designed to provide a greater measure of redistribution of income without necessarily involving crippling distortions, by minimizing non-transparent tax expenditures and keeping marginal rates low. Effective pricing of health care, including the pricing of waiting times, could encourage a better balance between equality and efficiency. Financial systems could be better regulated, with stricter attention to excessive accumulations of debt.

Will capitalism be a victim of its own success in producing massive wealth? For now, as fashionable as the topic of capitalism's demise might be, the possibility seems remote. Nevertheless, as pollution, financial instability, health problems, and inequality continue to grow, and as political systems remain paralyzed, capitalism's future might not seem so secure in a few decades as it seems now. ◆