

In Defense of Capitalism

by Daniel Borchers

November 1996

Two Visions

At the time of our nation's birth, two very different economic visions vied for predominance. One viewed people as victims living in a static zero-sum environment with the rich profiting at the expense of the poor. This view formed the basis for Keynesian economics in America and socialism around the world. It governs the political and economic agenda of the Left today.

The other view, promoted by Adam Smith, had faith in people to live their own lives. It held to a dynamic model where free transactions between free people produce wealth and promote a vibrant society. This view prevailed and remains the basis for the economic agenda of the Right.

Keynesian economics, introduced in the 60s and expanded in the 70s, insists on government intervention in the marketplace. Micro-management and centralized planning are cornerstones of this model and include wage and price controls, rent controls, high taxes, heavy regulation and devaluation of the dollar. This model created lower productivity, high inflation and unemployment, and a "misery index" which contributed to President Carter's downfall.

In contrast, Reaganomics adopted Adam Smith's vision: lower taxes and regulation, greater faith in the people and the free market. The result? Reaganomics worked. It created increased revenues, an unprecedented period of post-War economic growth for all levels of society, low inflation and low unemployment.

Socialism and capitalism are antithetical systems. Socialism considers central planning as best, views people as part of a group (cogs of a wheel). Economist George Reisman explains the differences and why one is successful, the other disastrous.

Capitalism does not view people as part of a group. Rather it looks to the individual. "Capitalism has a very successful private profit motive in economic planning," explains Reisman. "Under capitalism planning takes place on a foundation of prices and that integrates the separate plans of tens and hundreds of millions of individuals." In contrast, "Socialism attempts to monopolize all thinking and planning in the hands of the central planning board of the socialist State." Capitalism is the only system where people can achieve their self-interest. "The self-interests of individuals harmonize [in capitalism]." ²

The "invisible hand"

Adam Smith, the Founding Father of the free enterprise system, published his *The Wealth of Nations* in the year of our nation's birth: 1776. His was the beginning of an economic revolution against mercantilism (*State-planned economics*). Instead of centralized planning, Smith put the power of the marketplace into the hands of the people. Smith "meant to emphasize the equality of all classes in the exchange process ... [and] to emphasize the economic creativity of the individual human being ..." ³

William Godwin published his *Enquiry Concerning Political Justice* in 1793 intended as a refutation of Smith's views. Economist Thomas Sowell notes that "Human actions were dichotomized by Godwin into

the beneficial and the harmful, and each of these in turn was dichotomized into the intentional and the unintentional.”⁴ Godwin called intentional benefits “virtue” and intentional harm “vice.” He also called unintentional harm “negligence” but overlooked unintentional benefit. Smith described the *missing component* of Godwin’s vision as the “invisible hand” of the marketplace. [See Figure 1.]

| | | |
|----------------------|-------------------------|-------------------|
| | Beneficial | Harmful |
| Intentional | <i>Virtue</i> | <i>Vice</i> |
| Unintentional | <i>“invisible hand”</i> | <i>Negligence</i> |

Source: *A Conflict of Visions*, pp. 27-28.

According to Smith, the individual, in seeking his own will, is

“led by an invisible hand to promote an end which was no part of his intention. ... By pursuing his own interest he frequently promotes that of the society more effectively than when he really intends to promote it.”⁵

Why did Godwin miss this component.

Often overlooked is that “*people are producers as well as consumers.*”⁶ In addition, freely exchanged goods and services are *mutually beneficial*. According to economist George Gilder, redistributionists theorize that the wealthy obtained their wealth by *taking*, whereas wealth is achieved by *giving*; “Capitalists give” through investments, or providing products and services desired or needed by others.⁷ Gilder also notes the attitude of the entrepreneur: capitalists generally exhibit “faith in the future” and optimism for growth. These are all positive aspects of the free market system; traits which could be emulated in other areas of life.

Noted columnist and author William F Buckley, Jr, adds that there is indeed “a philanthropic base in capitalism,” through the free exchange of goods and services, with each party giving to the other (making all transactions mutually beneficial).⁸

Rep. Richard Gephardt shares Godwin’s viewpoint, dismissing the benefits of a capitalist society. Gephardt follows the “progressive principle” which contends that “those who enjoy more of society’s benefits should shoulder a little more of its burdens. ... Those who have prospered and profited from life’s lottery have a moral obligation to share their good fortune.”⁹

How wrong can they be! Life is not a lottery. People are not cogs in a wheel, or slaves to a philosophy of economic determinism. Those who have profited and prospered have *created* that prosperity. They *already* share in its burdens, and disproportionately so.

One man – billionaire Bill Gates, the richest man in America – has *already* “given back” to society by employing countless people and providing products which have revolutionized industries and improved people’s lives. He has brought computers and cyberspace into user-friendly territory, empowering individuals from all walks of life with the ability to work at home and to established home-based businesses.

Sen. Bill Bradley similarly defines the fundamental economic problem as “Inadequate growth, unfairly shared.”¹⁰ Who *defines* “fairness?” *Why* should it be shared? Will it be *government*, do you suppose, who would *redistribute* the wealth? Does the word *socialism* spring to mind?

Supply and Demand

Supply and demand. *Supply*-side economics. *Reaganomics*. These are terms for the same thing. The intelligentsia finds these terms repugnant because they favor an economic system which is its antithesis: socialism.

Competition is a cornerstone of the capitalist system, but competition has become a dirty word through the cultural elite’s efforts at stigmatizing the free enterprise system. American statesman Henry Clay explained, in 1832, the power of competition: “By competition the total amount of supply is increased, and by increase of the supply a competition in the sale ensues, and this enables the consumer to buy at lower rates. Of all human powers operating on the affairs of mankind, none is greater than that of competition.”¹¹

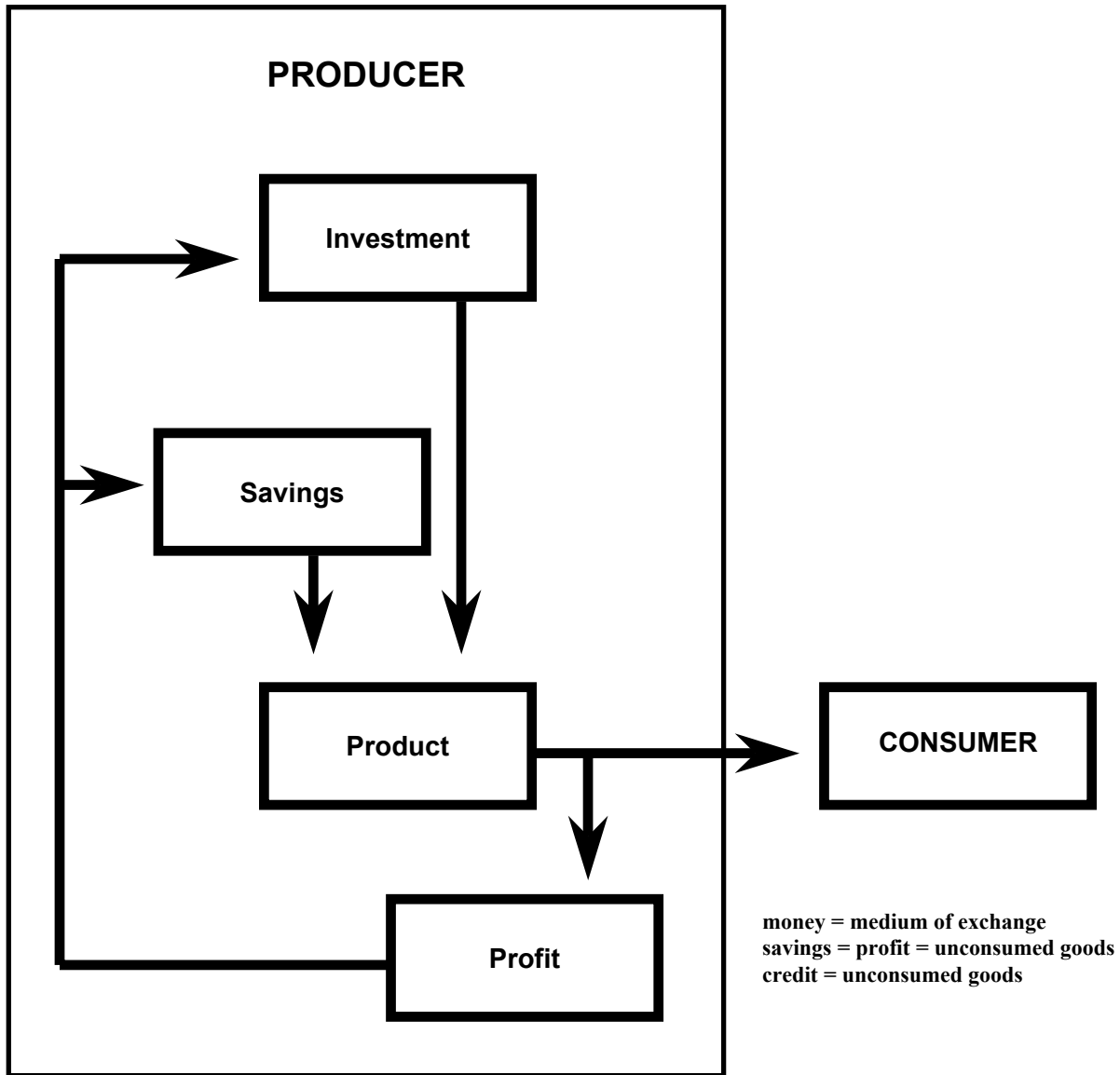
Does supply and demand work? The evidence for its success is overwhelming. Figure 2 illustrates *why* it works.

Supply creates demand. Two examples illustrate the point. From 1980-1992 drug usage was cut in *half*, while 1992-1996 saw a *doubling* of teen drug use.¹² Drug interdiction in the 1980s worked because it shrunk the *supply*, raising prices and lowering usage. Second, the growth of the pornographic industry contributed to increased incidences of rape and sexual assaults.

Demand-side economics has been disproved time and again, with the former USSR being the classic example. While there was an enormous demand for even the most basic necessities, the limited supply created endless lines and a flourishing black market.

The free market system is very sensitive to the needs of the consumer. It is very *consumer*-oriented. It puts power in the hands of the people. Just as democracy maximizes the *political* power of the people, capitalism maximizes their *economic* power. *Consumers* determine the *value* of products.

Capitalism, notes author Barbara Branden, is “the only system consistent with political freedom.”¹³ The free enterprise system is the *economic* counterpart to democracy. Capitalism and democracy meet, in different spheres, the needs of consumers and citizens.



Producer-driven, consumer-oriented, supply-and-demand, free-enterprise (free market) economic system

Other Benefits

In a truly capitalist society – which rewards merit and recognizes achievement – racism would be diminished because racial stereotypes would be disproved time and again.¹⁴ Unemployment for blacks was *lower* than whites in 1928.¹⁵ What happened? The expansion of the welfare state and the gradual socialization of our economy. The capitalism is fighting back. Harlem, long considered the prototype ghetto, has been experiencing an “economic renaissance” with “a rising middle class,” a 1990 median household income (\$19,487) showing a 210% increase in 10 years, and 11.8% of Harlem families with an annual income of at least \$50,000.¹⁶

What about women? One-third of small businesses (8 million) are women-owned, employing “one-fourth of the nation’s total workforce.”¹⁷

What about the environment? Contrary to the prevailing “conventional wisdom,” the capitalist system is environment-friendly and produces ample goods and services to support the growing global population. “At the heart of free-market environmentalism is a system of well-specified property rights to natural resources.”¹⁸ Ownership and responsibility produce good stewardship. Human self-interest provides a natural incentive to steward resources.

What about starving children in a Charles Dickens nightmare? “Most of the 5 percent of the world’s people who are at greatest risk of starvation lack food because of a war or the policies of their own governments. ... [political failures causing famines] occur in centralized, authoritarian systems. Free-market economies do not produce famines.”¹⁹

Democracy, like capitalism, “maximizes individual choices and tends (in the long run anyway) to upset the schemes of elites.”²⁰ Often overlooked, the free market system is “self-regulating.”²¹ Greater competition ensures higher quality of goods and services, lower prices, higher wages.

Different Spheres

Misunderstanding among the purposes of different institutions has caused considerable damage to those institutions – and to society as a whole. Figure 3 shows the major institutions and their *proper* functions. When government intervenes unnecessarily into these institutions the benefits provided by them are diminished. Unfortunately, all too often people look at the effects of government interference and then demand government do something about it, further exacerbating the problem.

Societal Division of Labor

- *Businesses exist to make and sell things.* They thrive on competition, on prices, on freely negotiated contracts, on optimism, and on a search for innovation and productivity.
- *Governments exist to take and protect things.* They thrive on a monopoly of sovereignty and authority, on providing necessary services to all without separate [prices or negotiations, on realism, and on a search for justice and safety.
- *Charities exist to give things away.* They thrive on cooperation, on gifts, on volunteerism and services, on altruism or religious values, and on a search for compassion and enlightenment.

Source: *The Heroic Enterprise*, pg. 197.

“I’m for the *ruthless* regulation of the *market*,” remarked economist Walter Williams. “People use government to avoid the *accountability* of the market. That’s what Washington is about. ... [People] go to government to subvert the operation of the market.”²²

Milton Friedman: “the people who preach the doctrine of social responsibility are concealing something: the great virtue of the private enterprise system is precisely that by maximizing corporate profits, corporate executives contribute far more to the social welfare than they do by spending stockholders’ money on what they as individuals regard as worthwhile activity.”²³

The accumulation of vast fortunes coincides with “tremendous public benefit.” The “inevitable consequence [of individuals making fortunes] is to enrich the whole of society.” Employees, consumers and other businesses all benefit from the creation of wealth.²⁴ And those benefits are passed on by individuals, churches and local groups to those in need. 49% of American adults performed volunteer work, donating 20.3 *billion* hours in 1995.²⁵

What is the role of government? John Locke believed “that labor was the real source of economic value, and that government, by assuring the individual of the fruits of his labor, advanced the prosperity of society.”²⁶ The welfare state is not the answer to poverty. Benjamin Franklin wrote: “I think the best way of doing good to the poor, is not making them easy in poverty, but leading them or driving them out of it.”²⁷

The Choice is Yours

The Fist Lady recently said: “[The free market] knows the price of everything but the value of nothing.”²⁸ One wonders who she believes knows the value of everything – *government*? The marketplace is not a living sentient organism, and neither is government. Central planning didn’t work in Moscow, Beijing or Havana. Why should it work here?

Who knows best the value of anything? The answer is obvious: *people*. Consumers know best what they want and what price they are willing to pay. It is the free interaction of a free people which provides the greatest choice of goods and services for the lowest price.

Whom do *you* trust to look out for your best interests? Do you want to be the master of your own fate, or leave it to a bureaucrat in the nation’s capital?

House Speaker Newt Gingrich writes: “Vision, energy, ambition, hard work, dreams of a better future and then making it come true – these are the hallmarks of American entrepreneurialism.”²⁹ According to him, “the spirit of free enterprise remains at the heart of American civilization.”³⁰

Those who wish to replace American civilization with “something better” have yet to offer a compelling case for a better model. Instead, those who would overturn our civilization seek to install a socialist political and economic system. For them the free market system is anathema. Before we get rid of what has worked for two centuries it would be well to closely examine alternatives.

To put it in capitalist parlance, let’s not buy a pig in a poke.

Endnotes:

- 1 See *BW* # 1: "Why Cultural Conservatism Is Taboo."
- 2 George Reisman, "Capitalism is a cure for racism," C-Span, October 23, 1996.
- 3 Leonard Krieger, *Kings and Philosophers, 1689-1789*, W.W. Norton & Company, 1970, pg. 196.
- 4 Thomas Sowell, *A Conflict of Visions: Ideological Origins of Political Struggles*, William Morrow, 1987, pg. 27.
- 5 Jerry Z. Muller, *Adam Smith in His Time and Ours: Designing the Decent Society*, Free Press, 1993, pg. 86.
- 6 *Clichés of Politics*, ed., Mark Spangler, The Foundation for Economic Education, Inc., 1994, pg. 128.
- 7 (January 5, 1981) William F. Buckley, Jr., *On the Firing Line: The Public Life of Our Public Figure*, Random House, 1989, pg. 297.
- 8 *Ibid.*, pg. 299.
- 9 Speech by the Democratic leader, July 6, 1995.
- 10 E.J. Dionne, Jr., *Washington Post*, August 25, 1996, pg. C07.
- 11 *The Story of America*, ed. Carroll C. Calkins, et. al., The Reader's Digest Association, Inc., 1975, pg. 504.
- 12 John Walters (co-author of *Body Count*), *Janet Parshall's America*, WAVA, December 5, 1996.
- 13 William Powers, "Ayn Rand Was Wrong," *Washington Post*, August 25, 1996, pg. F01.
- 14 George Reisman, "Capitalism is a cure for racism," C-Span, October 23, 1996.
- 15 Milton Friedman, "Markets & Political Economy," C-Span, April 18, 1996.
- 16 Rehema Ellis, MSNBC, September 1, 1996.
- 17 Kellyanne Fitzpatrick (The Polling Company), C-Span, July 19, 1996. See also *Women's Figures: The Economic Progress of Women in America*, American Enterprise Institute and Independent Women's Forum, 1996.
- 18 Terry L. Anderson & Donald R. Leal, *Free Market Environmentalism*, Pacific Research Institute for Public Policy, 1991, pg. 3.
- 19 *The True State of the Planet*, ed. Ronald Bailey, Competitive Enterprise Institute, 1995, pg. 54.
- 20 Brad Miner, "Foolish Virgins," *Good Order: Right Answers to Contemporary Questions*, ed. Brad Miner, Touchstone, 1995, pg. 30.
- 21 Robert L. Heilbroner, *The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers*, Touchstone, 1953, 1961, 1967, 1972, 1980, 1992, pg. 57.
- 22 *Washington Journal*, C-Span, December 10, 1996.
- 23 John M. Hood, *The Heroic Enterprise: Business and the Common Good*, Free Press, 1996, pp. 14-15.
- 24 George Reisman, "Capitalism is a cure for racism," C-Span, October 23, 1996.
- 25 Independent Women's Forum, press release, October 9, 1996.
- 26 Jerry Z. Muller, *Adam Smith In His Time and Ours: Designing the Decent Society*, Free Press, 1993, pg. 65.
- 27 Thomas G. West, "Poverty and the Welfare State," Claremont Institute, undated.
- 28 John F. Harris, "First Lady Still Interpreting Her Role," *Washington Post*, November 27, 1996, pg. A01.
- 29 Newt Gingrich, *To Renew America*, HarperCollins, 1995, pg. 46.
- 30 *Ibid.*, pg. 47.