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Capitalism as a Social Concept

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“Men born of freedom are naturally alert to repel invasion of their liberty by evil-minded rulers. The greater dangers lurk in the insidious encroachment of men with zeal, well meaning but without understanding”.

*Justice Louis Brandeis
Olmstead v. United States
277 US 479 (1928)*

Capitalism Under Siege

The fundamental role of an economic system is to assign responsibility and reward, where responsibility takes the form of employment and reward consists of money and social status, the latter of which most people submit should be according to merit. Why then is capitalism the only social system where competing economic interests improves everyone's welfare and opposing political interests produce intellectual freedom, under so much scrutiny today? Murray and Zingales offer the following explanations:

- **Crony capitalism** where top management take care of each other at shareholder expense;
- **Government collusion** where individual corporations create a competitive advantage through the cooperation of regulators;
- **Fortunes made quickly in financial markets** where wealth is created by making smart buy and sell decision which gives the impression of inside knowledge and access to information not publicly available;
- **A devaluation of the founding virtues:** industriousness, honesty, marriage and religion that allowed America to become an exceptional, free and prosperous society;
- **Unseemliness** of individuals of authority and unmitigated government influence peddling. Murray argues that unseemliness is “a symptom of the collapse of codes of behavior that depend not on laws and regulations, but shared understandings...” (page 335, digital version); and,
- **Ecumenical niceness**, or the loss of self confidence in the suitability and efficacy of customs of the new upper class and the tendency to preach nonjudgmentalism.

How these concerns, not unlike those expressed at the time Schumpeter wrote *Capitalism, Socialism and Democracy (1942)*, relate to the idealism of, rationale for and future of capitalism in the United States is the theme of this commentary.

The Capitalistic Doctrine

The quintessence of capitalism is exemplified by the following statements of prominent scholars who have observed, researched and written about the history, evolution and current statuses of capitalism in the United States.

“The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, and the new form or industrial production that capitalist enterprise creates” (Schumpeter, p.83).

“Every class of capitalist is at the beginning animated by a clearly progressive and innovating spirit, but becomes conservative as its activities become regulated (Pirenne, p. 30).

“Capitalism recognizes that where individual wants are different, the market should be free to respond, so that minorities can develop their own best outcome. Capitalism rewards innovators, so it encourages innovation for anyone willing to invest in new ideas. Competitive markets drive improvements in product and output. Socialism concentrates decision making in a small group where fewer ideas develop. The freedom to fail or gain that drives innovation, change and progress is absent from the socialist structure. “Capitalism without failure is like religion without sin, it doesn’t work” (Metzler, pp. 16-22).

“And because all the details of the changes constantly affecting the conditions of demand and supply of the different commodities can never be fully known, or quickly enough be collected and disseminated, by any one center, what is required is some apparatus of registration which automatically records all the relevant effects of individual actions, and whose indications are at the same time the resultant of, and the guide for, all the individual decisions. This is precisely what the price system does under competition, and which no other system even promises to accomplish” (Hayek, p. 95).

“The key insight of Adam Smith’s *Wealth of Nations* is misleadingly simple: if an exchange between two parties is voluntary, it will not take place unless they both believe they will benefit from it. Most economic fallacies derive from the tendency to assume that one party can gain only at the expense of another”. While this insight is understandable between two individuals, “it is far more difficult to understand how ...people all over the world can cooperate to promote their separate interests. The price system is the mechanism that performs this task without central direction...” (Friedman, p. 32).

“Adam Smith’s flash of genius was his recognitions that the prices that emerged from voluntary transactions between -buyers and sellers- in a free market could coordinate the activities of millions of people, each seeking their own interests in such a way as to make everyone better off” (Ibid, p. 32).

Government (central planning) in a capitalistic system is intended to play an important, but limited, role by: enforcing law and order, providing the means of formulating societal rules of conduct, adjudicating disputes, providing for national defense, facilitating transportation and communication, and supervising the issuance of currency. As Thomas Jefferson stated in his first inaugural address “the sum of good government is a state that shall restrain men from injuring one another and shall leave them otherwise free to regulate their own pursuits of industry and improvement” (Murray, p. 319). There is a consensus that the current size of government has overtaken the original intention of centralization, and that this encroachment has significantly reduced individual freedom, efficient allocation of resources, and the standard of living in the United States.

In this regard, Murray reminds us that western Europe developed an alternative to the American model, the “advanced welfare state”, that provides a great deal of personal freedom in all areas of life,

except economics. “The restrictions that the European model imposes on the economic behavior of both employers and employees are substantial, but in return, the citizens of Europe’s welfare states have bargained for and received (so far) economic security“ (Murray, p. 318). The European model does not do a good job of disaggregation, in that the need for food and shelter are mutually exclusive of: self-respect, which must be earned in the face of possible failure; intimate relationships, which can only be fulfilling when humans are engaged in interactions that have consequences; and, self-actualization, which allows for the exploration of the possibilities of life beyond what is obvious and convenient.”Knowing that we have responsibilities for the consequences of our actions is a major part of making life worth living and being able to look back on our lives and being able to say: I made a difference” (Murray, p. 320).

Populist programs that focus on economic redistribution can and typically have a positive short-term effect on the consumption patterns of poorer members of society who consume a greater percentage of their income than wealthy individuals. Combined with massive government spending, however, redistribution programs create huge fiscal deficits, as witnessed in the United States the last four years. The inevitable result of this behavior is a reduction in expenses and an increase in taxes, causing the very workers of the populist constituency to be worse off, while reducing the incentive for companies to invest, worker productivity, and real wages. This form of socialism stands in stark contrast to capitalism which are the two competing philosophies being debated in this year’s presidential election, the outcome of which will have profound implications for the future of the United States.

The Future

There is a lot to like about the advanced welfare states of Western Europe; they are great places to visit and the people don’t seem to be weighted down by an oppressive social system. But the overriding perspective is one where the “purpose of life is to while away the time between birth and death as pleasantly as possible... with the role of government to try and make that possible” (Murray, p. 613). Europe’s short workweeks and frequent vacations are one symptom of this syndrome, usurping self-actualization with the notion that work is a necessary evil which interferes with the ultimate societal goal, leisure.

“The alternative to the Europe Syndrome is to say that one’s life can have transcendent meaning if it is spent doing important things – raising a family, supporting oneself, being a good friend and good neighbor, learning what you can do well and doing it as well as possible.” Providing the best framework for these activities is the essence of the American project as defined by Murray; i.e., “the continuing effort, begun with the founding of America, to demonstrate that human beings can be left free as individuals and families to live their lives as they see fit, coming together voluntarily to solve their joint problems” (Murray, p. 20).

If Arnold Toynbee were able to observe the United States today in terms of the social norms he advocated and his evolutionary observations, he may well have concluded that the creative minority with strong self-confident style, virtue, and purpose has degenerated into a dominant minority that has “rejected the obligations of citizenship, surrendered to a sense of promiscuity, vulgarization of manners, the arts and language and ...has succumbed to the sickness of proletarianization” (Toynbee, 1946, Chapter 19, p.439), and the America he knew as a civilization is inexorably headed downhill, never to return to the exceptional and great nation it once was. Charles Murray argues, however, that America is on the verge of a “great civic awakening” because:

1. **Americans are watching** the European welfare state self destruct due to impending financial bankruptcy as more people rely on government transfer payments with fewer people in the private sector to support those benefits, and will ultimately reject the mathematical realities manifest in this scheme.
2. **Americans recognize** that wealthy nations like America can accomplish the core goal of an advanced welfare state – providing basic needs to the population – without profligate spending, and that the success of this objective is inherent in a system that leaves people responsible for the consequences of their actions.

3. **Americans are resilient**, as noted by Nobel economist Robert Fogel who traces and analyzes the three major religious movements since the founding of America, all of which were “characterized by powerful preachers, evangelical enthusiasm, and new ethics which precipitated powerful political programs and movements” (Fogel, pp. 176-77). The First Great Awakening (1720-1730) set the stage for the American Revolution; the Second Great Awakening (1800-1840) was instrumental in the spread of the temperance movement, compulsory elementary education, abolitionism, and the beginning of the women’s suffrage movement; and, The Third Great Awakening (1860-1890) laid the moral basis for the New Deal, and the civil rights movement.

Fogel argues that 1960 was the beginning of the Fourth Great Awakening; i.e., the growth of “enthusiastic religion”, where there was a significant increase in number of people who believe in born again Christianity which, when added to the number of mainline churches and the Catholic Church, accounted for approximately 80 million people in 1980, or approximately a third of the electorate.

Early manifestations of this attitude were the right-to-life movement, the tax revolts of the 1970s, and the criticism of the media in the 1980s. It is not suggested that the future will be an extrapolation of the Christian Coalition, but rather a “postmodern egalitarian agenda” where two forces arrayed against each other will debate the principle of *equality of opportunity*, versus the continuing attempt of the disciples of the Third Great Awakening to extend the *equality of condition*.

It is precisely these opposing views that are being debated by politicians and concerned citizens: more government and more controlled outcomes **versus** more freedom to choose and more opportunity. Given the history and hardiness **of America**, I am confident voters will make the right choice **for America** this year...

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