

## CAPITALISM

### [FROM THE ENCYCLOPEDIA OF PHILOSOPHY OF LAW]

Capitalism is the political economic system in which the institution of the right to private property, that is, to own anything of value (not, of course, other human beings, who are themselves owners), is fully respected. There is dispute about the label, of course, mostly because its definition is often a precondition of having either a favorable or unfavorable view of the system.

By itself capitalism is an *economic* arrangement of an organized human community or polity. Often, however, entire societies are called capitalist, mainly to stress their thriving commerce and industry. More rigorously understood, however, capitalism presupposes a type of legal order governed by the rule of law in which the principle of private property rights plays a central role. Such a system of laws is usually grounded on *classical liberal* ideals in political thinking. These ideals may incorporate positivism, utilitarianism, natural rights theory and/or individualism, as well as notions about the merits of laissez-faire (no government interference in commerce), the "invisible hand" (as a principle of spontaneous social organization), prudence and industriousness (as significant virtues), the price system as distinct from central planning (for registering supply and demand), etc.

Put a bit differently, "capitalism" is the term used to mean that feature of a human community whereby citizens are understood to have the basic right to make their own (more or less wise or prudent) decisions concerning what they will do with their labor and property, whether they will engage in trade with one another involving nearly anything they may value. Thus capitalism includes freedom of trade and contract, the free movement of labor, protection of property rights against both criminal and official intrusiveness.

The concept "freedom" plays a central role in the understanding of capitalism. There are two prominent ways of understanding the nature of freedom as it pertains to human relationships. The one that fits with capitalism is *negative* freedom, namely, the condition of everyone in society not being ruled by others with respect to the use and disposal of themselves and what belongs to them. Citizens are free, in this sense, when no other adult person has authority over them that they have not granted of their own volition. In short, in capitalism one enjoys negative freedom, which amounts to be free *from* others' intrusiveness. The other meaning of freedom is that citizens have their goals and purposes supported by others or the government so as to prosper. Under this conception of freedom one is free

to progress, advance, develop, or flourish only when one is enabled to do so by the efforts of capable others.

In international political discussions the concept "capitalist" is used very loosely, so that such very diverse types of societies as Italy, New Zealand, the United States of America, Sweden and France are all considered capitalist. Clearly, no country today is completely capitalist. None enjoys a condition of economic *laissez-faire* in which governments stay out of people commercial transactions except when conflicting claims over various valued items are advanced and the dispute needs to be resolved in line with due process of law. But many Western type societies protect a good deal of free trade, even if they also regulate most of it as well. (The extent of such regulation in the United States of America alone, thus the divergence from pure capitalism, is chronicled in Jonathan R. T. Hughes, *The Governmental Habit*, 2nd edition [1990].) Still, just as those countries are called "democratic" if there is substantial suffrage -- even though many citizens may be prevented from voting -- so if there exists substantial free trade and private ownership of the major means of production (labor, capital, intellectual creations, etc.), the country is usually designated as capitalist.

The most common reason among political theorists and economists for supporting capitalism is this system's support of wealth creation. (See, Adam Smith, *The Wealth of Nations* [1776]; Milton Friedman, *Capitalism and Freedom* [1962]; F. A. Hayek, *The Road To Serfdom* [1944].) This is not to say that such theorists do not also credit capitalism with other worthwhile traits, such as encouragement of progress, political liberty, innovation, etc.

Those who defend the system for its utilitarian virtues -- its propensity to encourage the production of wealth -- are distinct from others who champion the system -- or the broader framework within which it exists -- because they consider it morally just. (See, for example, Ayn Rand, *Capitalism: The Unknown Ideal* [1966]; John Hospers, *Libertarianism* [1972]; Robert Nozick, *Anarchy, State, and Utopia* [1974].)

The first group of supporters argue that a free market or capitalist economic system is of great public benefit, even though this depends on private or even social vice, such as greed, ambition, exploitation. As Bernard Mandeville, the author of *The Fable of the Bees*, put it, this system produces "private vice, public benefit." Many moral theorists see nothing virtuous in efforts to improve one's own life. They believe, however, that enhancing the overall wealth of a human community is a worthwhile goal.

Those who stress the moral or normative merits of capitalism say the system rewards hard work, ingenuity, industry, entrepreneurship, and personal or individual responsibility, and this is all to the good. This alone makes the system morally preferable to alternatives. Yet, another other reason given why capitalism is not only useful but a morally preferable system is that it makes possible the exercise of personal choice, something that would be obliterated in non capitalist, collectivist systems or economic organization.

The most influential critic of capitalism is the 19th century German thinker and social activist Karl Marx. He did not oppose capitalism but argued that it occupies only a specific period of humanity's development. Capitalism, as Marx saw it, is the adolescent period of humanity, as it were. Socialism is the young adulthood, while communism is full maturity. Marx believed that supporters are wrong to assume that the system has universal relevance and validity. Instead, Marx held, the system must be accepted as a temporary fact of the life of humanity -- two or perhaps four hundred years long.

Capitalism's defenders have argued, in response, that the system that is, economic liberty -- is best suited to human beings because human nature is reasonably stable over time. Human beings, in turn, tend always to be motivated by self-interest or they will always want to be rewarded for their work and will not likely develop into creatures who are loyal primarily to humanity or society, never mind their self interest.

Others have responded to Marx by claiming that not only is his position untenable but actually morally despicable. The vision of human life Marx champions cuts directly against what is best about human beings, namely, their individuality, uniqueness and resulting multifaceted creativity, that is, their often single minded vision. Capitalism accords more with the idea of human excellence exemplified by the great artists, scientists, industrialists of the world, not the vision exemplified by members of a stagnant commune. Capitalism is feared only by the lethargic or cowardly, who do not prefer the hustle bustle of nature, including human life.

Capitalism is an economic organization based on some very limited rules or principles. People are at liberty to do everything other than intrude on the sovereignty of other human beings and what they own. As such it is a system said to be well suited to human nature, whereby one may embark on various tasks and do well or badly at them but avoid intruding on others. This is best done when one's own sphere of authority -- one's private property rights -- is clearly identifiable.

With the 1989 collapse of the centrally planned economy of the Soviet Union, the debate about the ultimate merits of capitalism has heated up once again. It had been somewhat lukewarm earlier because of the dominance and apparent success of the welfare state. But that system began to falter from the malaise of stagflation, i.e., both inflation and recession at the same time. Such Eastern European scholars as Janos Kornai have argued in favor of moving toward a full fledged free market system (see, *The Road to the Free Economy* [1990]), instead of attempting to institute the welfare state, mainly because they believed that the latter is only possible, at least for a while, in robust economies which can support the redistribution of wealth. But Kornai argued that the Eastern European countries -- indeed, all those with serious economic deficiencies -- require robust economic activity, something the welfare state tends to stifle.

Others have urged that a "third way" be found -- e.g., communitarianism or market socialism. They argue that capitalism is too harsh a system to be fully adopted in any decent society, echoing what earlier critics said about the system -- e.g., by John Maynard Keynes in his book *The End of Laissez-Faire* (1926). Indeed one such warning comes from Robert Kuttner, himself the author of a recent book entitled *The End of Laissez-Faire* (1992). In all of these criticisms, despite protestations to the contrary, the conception of capitalism the critics embrace differs only minimally from Karl Marx's. Only what to do about it is different, closer to the pre-Marxist utopian socialist solutions.

Marx had argued, in his *Das Kapital* (1863ff) and other works, that although unavoidable, capitalism leads to the alienation of the members of its community, not to mention the exploitation of the working class. In the end this will also be the immediate cause of its necessary demise, namely, workers' disenchantment. Marx also argued that capitalism, as all societies prior to socialism and communism, is essentially a class system, so that the working and the capitalist classes are locked in an irresolvable conflict that can only be overcome by way of fundamental change, namely, a (either peaceful or violent) revolution leading to a socialist system.

The more recent critics wish to forge some kind of hybrid between capitalism and socialism. Yet the welfare state is just that hybrid and it is suffering from the inconsistencies that such systems wish to live with but which also haunts them. To try to preserve both negative and positive liberty is futile. It means some have a bit of one, others a bit of the other, some of the time, and the disorder tends to slow everything down. By only partially protecting private property, for example, the welfare state or market socialism

or communitarianism instills major uncertainties into people's lives, some of whom set property aside only to find it confiscated for some public cause just when they wish to make it useful to them.

Those who champion capitalism have different answers to Marx and his friends, the welfare statist. Mainly they argue that although capitalism permits some harshness of treatment, it need not cultivate it at all. Nor need economic and social classes be rigidly formed -- people travel from one economic level to the other more often than the critics imagine. Exploitation is really just a way to meet the needs of differently positioned members of the community -- some need more at one time than others, of certain goods and services, some have too much, some lack even elementary survival resources, but it is still best to leave things to the market place of free trade.

Capitalist theorists also note that most critics of capitalism demean wealth. Indeed, they virtually attack the pursuit of human well-being itself and, especially, luxury, anytime there are needy people left anywhere on earth, as well as, more recently, if any portion of nature is overrun by human beings (as if they were not natural creatures). But, the champions of capitalism argue, this stems from utopian thinking and has the consequence of begrudging anyone a measure of welfare, since some people will always be poor some of the time and nature will continue to be transformed by people.

Yet the capitalist advocate need not be seen as reckless toward the environment. Indeed, arguably the strict and consistent institution of the principle of private property rights -- through, for example, privatization and prohibition of dumping waste into other private as well as public realms -- may solve the environmental problems we face better than any central planning champions of the environment tend to propose. (In this connection, see the works of such free market environmentalists as John Baden, Richard Stroup, Fred Singer, and Tibor R. Machan.)

Finally, critics of capitalism do not credit owners of wealth with any moral virtues -- not even for their industry and prudence (often denying that these are virtues at all). This its champions maintain is a grave and indeed tragic mistake -- we all depend on the wealth creation of our fellow human beings, even as we try to do this ourselves, and yet the activity is without much appreciation. Business has a very bad press, indeed.

Capitalism has experienced widespread disrespect in part because throughout human history there has been a powerful intellectual tradition of *otherworldliness*. In the *Bible* Jesus decries wealth acquisition when he asks, rhetorically, "For what shall it profit a man, if he shall gain the whole world, and lose his own soul?" This suggests that a profitable life cannot go hand in

hand with being a decent person or having moral character. And, again, the *Bible* states that sooner will a camel go through the eye of the needle than the rich man enter the kingdom of heaven. Socrates, Plato and even Aristotle (who had his feet planted mostly on the ground), tended to denigrate wealth production, regarding trade and commerce lowly and base. Throughout much of Western history taking interest on money was deemed usurious, hoarding miserly, and profiteering greedy or avaricious. Marx's criticism was different not in the standards he employed to judge the system but by his claim that it is a necessary but soon to be superseded evil, nothing more.

Some supporters of the system argue that this view is untrue to the facts of human nature and has misled us about the moral merits of commerce and business and, thus, of capitalism itself as a vital human institution. Because of its challenge of some central ideas of the past, it is arguable that capitalism is far more radical than even communism. The commune has always been around, in its relatively small versions, and it has much in common with the prominent social organization of primitive times, namely, tribalism (both as idealized and as actually manifest).

Capitalism, on the other hand, rests in large part on the belief that human beings are essentially individuals and a society's laws must value individuals above all else. Contrast this with Marx's conservative view that "The human essence is the true collectivity of man" ("On the Jewish Question"). Most historians of ideas admit that whether the importance of human individuality should have been recognized in earlier times, it certainly was not much heeded until the modern age. Even in our time it is more often that groups -- ethnic, religious, racial, sexual, national, cultural etc. -- are taken to have greater significance than individuals. The latter are constantly asked to make sacrifices for the former. In capitalism, however, the individual -- e.g., as the sovereign citizen or the consumer -- is king. Undoubtedly a capitalist system does not give prime place to economic equality among people, something that group thinking seems to favor since in groups all are deemed to be entitled to a fair share.

Capitalism's champions take it as more reasonable that people may differ in their abilities, talents, and willingness pertaining to economic achievement. So what is crucial is that they should be *equally unimpeded by the aggressiveness of others* -- whether criminals or bureaucrats -- in their access to the market place or, indeed, to any other place in a human community whenever they gain permission to enter or reach satisfactory terms of agreement. From this it is proposed that they will not only benefit in

the long run, collectively, but will have their individuality as human beings with dignity and choice, more respected than in alternative systems.

Capitalism tends to be favored most by academic economists, even more so than by members of the commercial community (who often do not understand and even wish to subvert the system). They are unique in the academic world and are often met with severe criticism from outside their field. (See, for example, Amitai Etzioni, *The Moral Dimension* [1988], Kenneth Lux, *Adam Smith's Mistake* [1990], and Andrew Bard Schmockler, *The Illusion of Choice* [1993].)

The most prominent academic economists who champion capitalism are known as members of the neoclassical or Chicago school. Another that stands four square behind capitalism is the Austrian school. (For a collection of non technical essays by such thinkers and others who favor capitalism, see, Lawrence S. Stepelevich, ed., *The Capitalist Reader* [1977].) Others include the well known Public Choice and the Law and Economics theorists. With certain variations in their approach, all these believe that capitalism is well suited to people living in communities, mainly because any other system places obstacles before the natural inclination of human beings to advance their own lot and thus improve the world.

But is that enough? An economic organization of society needs to appeal to what people believe is just and proper; it may not offend moral sensibilities. Unless supporters of capitalism reconcile their vision of economic life with the demands most people make for their society to conform to a sound view of justice, they will not succeed. Despite the demise of centrally planned socialism and the great deal of skepticism about socialism of any kind, capitalism is by no means the hands down winner in the race for the hearts and minds of people in the world regarding the kind of community they ought to support.

## Bibliography

- Chamberlain, John, *The Roots of Capitalism*. Princeton, N.J.: Van Nostrand, 1968.
- Etzioni, Amitai, *The Moral Dimension*. New York: The Free Press, 1988.
- Friedman, Milton, *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962.
- Hospers, John, *Libertarianism*. Los Angeles: Nash Publishing Co., 1972.
- Hughes, Jonathan R. T., *The Governmental Habit*, 2nd edition. Princeton: Princeton University Press, 1991.
- Kelso, Louis O. and Mortimer J. Adler, *The Capitalist Manifesto*. New York: Random House, 1958.
- Keynes, John Maynard, *The End of Laissez-Faire*. London: L. & Virginia Woolf, 1926.
- Kornai, Janos, *The Road to the Free Economy*. New York: W. W. Norton, 1990.
- Kristol, Irving, *Two Cheers for Capitalism*. New York: Basic Books, 1978.
- Kuttner, Robert, *The End of Laissez-Faire*. New York: Alfred Knopf, 1991.
- Lux, Kenneth, *Adam Smith's Mistake*. Boston: Shambhala Publishing Co., 1990.
- Machan, Tibor R. *Capitalism and Individualism*. New York: St. Martin's Press, 1990.
- Mandeville, Bernard, *The Fable of the Bees*, 5th edition. London: J. Toston, 1728-29.
- Marx, Karl, *Das Kapital*. New York: International Publishers, 1967.
- Nozick, Robert, *Anarchy, State, and Utopia*. New York: Basic Books, 1974.
- Rand, Ayn, *Capitalism: The Unknown Ideal*. New York: New American Library, 1966.
- Schmookler, Andrew Bard, *The Illusions of Choice*. Albany, NY: State University of New York Press, 1993.
- Smith, Adam, *The Wealth of Nations*. Oxford: Clarendon Press, 1976.
- Stepelevich, Lawrence S., ed., *The Capitalist Reader*. New Rochelle, N.Y.: Arlington House Publishers, 1977.
- von Hayek, F. A., *The Road To Serfdom*. Chicago: University of Chicago Press, 1944.
- von Hayek, F. A., ed., *Capitalism and the Historians*. Chicago: University of Chicago Press, 1954.

von Mises, Ludwig, *The Anti-Capitalist Mentality*. Princeton, N.J.: Van  
Nostrand, 1956.