

COUNTERING THE ASSAULT ON CAPITALISM

Fred L. Smith, Jr.

Capitalism is the most efficient system for solving problems and for advancing human welfare. Yet it faces opposition both from intellectuals and those with vested interests in big government. If business leaders would push for 'liberate to stimulate policies', they might succeed in creating a freer tomorrow and solving more of humanity's problems.

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Introduction

Capitalism has been the most successful institution in human history yet it has never gained the legitimacy it merits. As Milton Friedman stated: 'Everywhere capitalism has been tried, it has succeeded. Everywhere socialism has been tried, it has failed. The lesson learned? We need more socialism!'

One of capitalism's greatest champions, the economist Joseph Schumpeter (1942) asked, 'Can Capitalism Survive?' He responded that the failure of capitalism to gain popular *legitimacy* would lead to its replacement by some form of state socialism. Yet Schumpeter's thesis does offer some cause for hope. Capitalism has great vitality and can regain ground lost during the last century. Albeit aided by the inherent weakness of statist policies, the advance of capitalism will require a far more strategic offensive than has yet been waged.

Capitalism is robust. It remains strong, despite the reach of its naysayers. That is because it advances all the disparate cultural values of mankind – freedom, order and fairness. As Schumpeter noted, the triumph of capitalism isn't in providing silk stockings to queens and princesses, but in making such former luxuries accessible to the shop girls of Europe. It does so in the only way progress can be attained – incrementally. It does not purport to create Utopia.

The expansion of the market has not only increased freedom and spurred economic growth, it has also lifted more people out of poverty than any system in history. Even with such success, capitalism has failed to cultivate

resolute defenders. Everywhere capitalism is under assault. Why is this? Capitalism has many beneficiaries, yet it finds few spirited defenders among the masses liberated from poverty, intellectuals, or even entrepreneurs whose success is only made possible by capitalist institutions.

Schumpeter's argument

Joseph Schumpeter argued that the very success of capitalism would plant the seeds of its own destruction. Capitalism liberates the 'creative destruction' of entrepreneurial change. The resulting wealth frees most people from subsistence levels, creating a middle class. Most enjoy the better life but some become agents of change: the 'doers' – the entrepreneurs – and the 'thinkers' – the intellectuals.

Entrepreneurs are the drivers of economic and technological growth. They are the heroes of our society – from Eli Whitney to Bill Gates – who thrive by making our lives easier and more productive.

Intellectuals develop the societal narratives that seek to explain changes in society. Their storyline: change is disruptive. As witnessed during the Industrial Revolution, the vast changes that swept through Europe and America ignited resentments. Most intellectuals disparaged capitalism for its disruptive nature, neglecting to take note of the value added by its immense wealth-creating capacity.

Capitalism, the intellectuals argued, may address man's material needs, but fails to

advance higher order needs – community, environmental protection, equality and justice. Economics Nobel Laureate Friedrich A. Hayek aptly described the fatal conceit as intellectuals' belief that they can direct social change for the benefit of mankind (Hayek, 1988). These intellectual critics of capitalism argued that the gains were concentrated too heavily, that the benefits diffused too slowly, that not all benefited equally and capitalism must be modified to better address poverty, inequality, pollution, illiteracy, public health and other societal problems.

Intellectuals craft the narratives, stories and metaphors framing and shaping what become the popular views of societal change. As the anti-capitalist narratives gain in popularity, the view of capitalism as an immoral means of creating wealth and knowledge becomes ever more entrenched. As those ideas influence public policy, freedom declines and statism rises.

The 'Third Way' folly

Government has certainly grown relative to the private sector since Schumpeter published his essay. At the end of the nineteenth century in the United States, government comprised less than ten per cent of the economy. Today, government either consumes or directs nearly half of the economy, with direct government spending alone reaching almost 40 per cent of GDP. Still, the costs of expanded government intervention extend far beyond the direct costs that are readily visible in taxing and spending.

Government regulations impose costs that are off-budget, but no less real. They stifle innovation and entrepreneurship. At the US federal level alone, regulatory costs now approach \$US 2 trillion. Vast swaths of the economy are constrained by mandates and bans, government-subsidised competitors and pervasive moral hazards.

Yet rather than fight for economic freedom, many in the business community have responded to this growing threat by seeking to use government to their own advantage. The corrupting influence of political regulation on business has led to a system of crony capitalism in which vested economic interests protect their positions by undermining competition through the wielding of political power. To that end, they forge powerful alliances with other forces with a stake in the status quo – from the politicians on whose favour the crony capitalists depend to the fashionable-cause activist groups and establishment media whose approval the *bien pensant* so crave.

Today, we see the end result in a statist status quo – known as 'managed capitalism', 'capitalism with a human face', the 'third way' and other nebulous monikers – in which established political and economic interests stand athwart the Schumpeterian process of creative destruction yelling 'stop' and have the force to back up their admonition. That is what we have in America today: a mixed economy, far down the *Road to Serfdom* against which Hayek warned (Hayek, 1944).

Thus, the innovative and pro-market intellectual upstarts who represent a brighter tomorrow are political orphans. They represent the best hope for forging a strategic alliance for the defence of capitalism.

Why hasn't capitalism found defenders?

Why haven't more intellectuals defended capitalism?

Intellectuals from the time of the early Industrial Revolution onward were quick to seize upon the shortfalls of capitalism. Based on their utopian standards, they saw 'market failures' everywhere. Most Americans were acquainted with the portrait of capitalism created by the muckrakers – a world filled with Robber Barons, driven by greed and harming the powerless. That capitalism lifted more people from poverty faster than ever before, that literacy rates and life spans were rapidly expanding, and that purchase prices were dropping did not interest most intellectuals.

Still, how ideas move into reality is the critical challenge to reversing this trend. Therein lies the true power of intellectuals – their narrative crafting role. Most individuals interpret the world through the narratives presented to them. They have responsibilities and commitments that preclude them from becoming deeply involved in and informed about public policy. Economists call this choice of political non-involvement 'rational ignorance'. There is little reason for most individuals to spend scarce resources – time and money – to analyse and understand issues about which they can have little-to-no impact. Most political opinions, therefore, are influenced less by information than by narratives that link issues with people's core values.¹ In other words, most people are too busy living life to devote time and effort to crafting their own narratives.

Most of us are familiar with the anti-capitalist canards that are prevalent in the media, academia, and the arts: capitalism creates monopolies, threatens freedom, rewards greed, destabilises communities, destroys traditional values and creates a polarised society where the rich get richer and the poor get poorer. Meanwhile, government failures receive little attention.

Why doesn't business defend capitalism?

Businessmen are the likeliest candidates to realise their interests are best advanced by an expansion of the market. Their greatest skill being wealth creation, it should be logical for them to want to promote a larger economic sphere free of politics. Yet, few businessmen have joined ideological defenders of the market. If this pattern can be reversed, the future of capitalism will be much brighter than Schumpeter predicted.

With a comparative advantage in the private marketplace, businessmen have few drivers to learn the skills of the political sphere. For that reason, many often take a self-defeating approach. CEOs, like everybody else, seek public support and often even, affirmation. They swim in the waters coloured by intellectuals as do their children, partners and board members. Thus, it should not be surprising when they are confronted with questions such as: 'Daddy, why are you destroying the planet?' 'Dear, my friends at the Country Club think you should be doing more about AIDs or poverty or Global Warming!' that many are quick to appease their critics.

As Schumpeter foresaw, the outcome of this cultural bias: [Rather than educating its] enemies, [business] allows itself . . . to be educated by them. It absorbs the slogans of current radicalism and seems quite willing to undergo a process of conversion to a creed hostile to its very existence. . . . This would be most astonishing and indeed very hard to explain were it not for the fact that the typical bourgeois is rapidly losing faith in his own creed.

[Business leaders] . . . talk and plead – or hire people to do it for them; they snatch at every chance of compromise; they are ever ready to give in; they never put up a fight under the flag of their own ideals and interest.'

(Schumpeter, 1942, p. 161)

Entrepreneurs doubt the morality of their own endeavours and accept political restraints. They internalise the accusations flung against them and become, as Schumpeter described, 'state-broken'. It need not be this way; an alternative is clear to see. Businesses spend vast sums crafting and disseminating narratives to reach consumers, to persuade them that their products and services are good and worthwhile.

Why don't businesses seek to direct their advertising narratives to gain legitimacy? They are under political attack from government regulations as well as intellectual ideologues who blame them – and capitalism – for all society's problems. As much as they employ Vice Presidents of Environment, Community Relations, Public and Government Affairs, Employee Relations and a host of other political positions, businesses should similarly hire agents to legitimise their social role.

An automaker, for example, will find it worthwhile to convince Joan Consumer that her car is a good buy. Convincing Joan Citizen of the societal value of the automobile can go a long way toward making her less willing to accept the assertions of political attacks.

Was Schumpeter right?

Schumpeter's gloomy prognosis for the future of capitalism carried a silver lining of hope, even if he did not see it at the time. Properly mobilised, forces for economic liberty can mount a vigorous defence of capitalism and possibly even recapture some of the ground they have lost over the last century. What Schumpeter failed to consider was that some intellectuals would resist the allure of statism. Indeed, many have, and have provided the founding stores of intellectual ammunition on which we can draw today.

In the years following World War II, an array of classical liberal intellectuals emerged – members of the very class which Schumpeter warned would bring about capitalism's demise. Today, many of their names are well known: Ludwig von Mises, Ronald Coase, Milton Friedman, Friedrich Hayek and many others. These 'traitors to their class' fostered the creation of the public policy institutes, publications, and advocacy organisations that have helped define the free market movement as we know it today.

But they did not do it alone. Prompted by Hayek, Antony Fisher opened Britain's first think tank, the Institute of Economic Affairs (IEA), in 1955. Over the last 60 years, a flowering of classical liberal organisations has helped win some victories in the war of ideas.

The resources of our groups and the numbers of pro-market intellectuals remain much smaller than those of statist groups. Expressing them as a fraction of the total wealth of the world – wealth that economic liberal policies have made possible – illustrates the disparity well. The world's wealth is around \$US60 trillion whereas the cumulative budgets of all market-oriented policy groups optimistically amounts to only \$US600 million. That ratio is *ten to the minus five!* If the human body devoted such a small fraction of its energies to fending off bacterial and viral threats, to repairing damaged organs, to replacing dead cells, our survival would be doubtful.

Despite the imbalance, victory in the war of ideas is not determined by money but by the quality of the arguments, and free market ideas are received resoundingly well.

Crises create opportunities. As the economist Herbert Stein famously noted, 'If something cannot go on forever, it will stop.' The current pace of government growth cannot go on forever. The welfare-regulatory state is unsustainable as witnessed by Greece and Portugal in Europe to California and New Jersey in America. There is now a realistic opportunity, for the first time in decades, to restore rational policies. Classical liberal forces must ensure that, when public policy recrystallises, it is shaped in a freer mould.

If we accept the criticisms of the dominant intellectual class, capitalism will fade, as Schumpeter predicted. For that reason, we must create a counter-reformation of classical liberal intellectuals and business leaders, who work together to promote legitimising narratives about capitalism and instill its virtues in the hearts and minds of our global society.

Statists have been far more aggressive in uniting both their economic and intellectual forces, but that fact creates a template that could readily be followed by free market forces. Neither business nor classical liberal intellectuals need wage this struggle alone. There are, after all, intellectual defenders of capitalism. The IEA, CEI and a growing number of policy groups around the world are devoted to this cause.

Schumpeter presciently warned that capitalism would create an unholy alliance of anti-market intellectuals and rent-seeking businesses. But he did not envision challengers to that view – a holy alliance of classical liberal intellectuals and pro-market entrepreneurs. Competing on a more level playing field, integrating more effectively with like-minded classical liberals offers a promising resolution to Schumpeter's gloomy prediction.

Business and free market intellectuals together could create robust strategies to encourage experiments in the private sphere. To do so, the business community must understand the scope and consequence of their value in the political sphere. Incremental reforms that remove the rocks from the path to the future are the most likely way to restore capitalism and ensure a prosperous tomorrow. Emerging concerns and resources must be evaluated in the market – the world of voluntary exchanges – rather than in the public sphere.

If business is to become an effective ally, those of us in the intellectual world must find ways to reach them, alert them to their stake in the policy wars, the tsunami-size threats to their future, instruct them on more effective battle tactics, and demonstrate our value in that struggle. Business need not accept its role as a villain. As Schumpeter noted, '[H]istory is

full of examples of the success of small groups who, believing in their cause, were resolved to stand by their guns.'

Businesses must respond more strategically to the political predation they face in the public policy world. Capitalism is the most efficient system for solving problems, for advancing human welfare. Yet business seldom advocates policies that would remove some of the obstacles to wealth creation and economic growth. If business leaders would push for 'liberate to stimulate' policies, they might succeed in creating a freer tomorrow and solving more of mankind's problems. A small cadre of resistance fighters allied with the free market policy community could begin to liberalise sectors of the economy and encourage innovation. Business also needs to focus not just on their products or services but on their value to broader society. Business spends vast sums on communication strategies to gain customers. They should craft narratives to communicate their contribution to society, use their resources to disseminate these messages and seek out allies in that legitimisation effort. If those communiqués were also directed

at Joan Citizen, if firms' marketing skills were used to legitimise business, the climate for balancing the private and political worlds would be much better.

1. The literature on the factors that influence public opinion is extensive. Since the pioneering work of Aaron Wildavsky and Mary Douglas, however, there has been a major shift toward the view that cultural values largely influence that process. In effect, the views one holds about things one doesn't think about are largely self-selected to reinforce one's values. That process will be influenced by the 'narratives' or 'frames' that link values to the policy or issue under consideration.

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Fred L. Smith, Jr. is President of the Competitive Enterprise Institute (fsmith@cei.org).

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When it comes to the purchase of everyday goods such as coffee, tea and sugar, most consumers believe that sellers of Fair Trade products occupy the high moral ground. Despite its strong statements, however, the claims of the Fair Trade movement have not been tested properly.

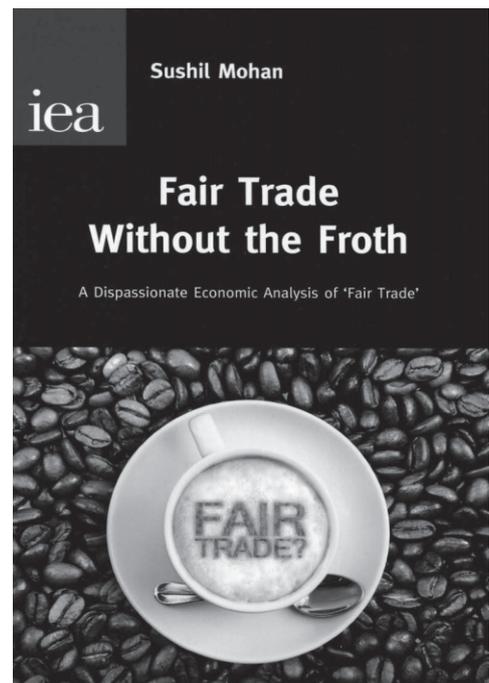
This important study, whilst not doubting the position that Fair Trade is part and parcel of a market economy, does question the claims made by the Fair Trade movement. The market economy and free trade – often decried by proponents of the Fair Trade movement – may deliver the benefits that the Fair Trade model brings without the costs and bureaucracy involved in obtaining the Fair Trade label. Furthermore, this study questions the exclusivity often claimed by Fair Trade organisations: there are other social labelling initiatives that perhaps have more transparent objectives.

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