Chapter 5

Nine Myths about Capitalism

Understanding how capitalism works reveals the promise of market-based school reforms, but embracing that promise requires overcoming many common myths about the history and record of capitalism. Those myths, Friedrich Hayek wrote, "have long been proved not to have been facts at all; yet they still continue, outside the circle of professional economic historians, to be almost universally accepted as the basis for the estimate of the existing economic order."[1]

Many of the myths discussed here have little or nothing to do with schooling per se, and consequently are rarely, if ever, addressed in books on school reform. Yet, these assertions lie at the heart of the (modern) liberal case against school vouchers, and they become more important over time as other objections are answered by sound scholarship and experience. Few readers will be persuaded to leave behind years of assumptions and considered opinion on the basis of the few paragraphs presented here, but perhaps some can be persuaded to begin the journey. More complete defenses of capitalism can be found in the books listed at the end of this chapter.

[1]Friedrich A. Hayek, *Capitalism and the Historians* (Chicago: University of Chicago Press, 1954), p. 7.

The nine myths discussed in this chapter are

1. Capitalism makes the rich get richer and the poor get poorer.
2. Capitalism is inherently unstable: It caused the Great Depression.
3. Corporations earn obscene profits at the expense of consumers and workers.
4. Corporations engage in predatory pricing, misleading advertising, and other deviations from the market ideal.
5. Unrestrained capitalism leads to environmental destruction.
6. Mergers and acquisitions have concentrated economic and political power in fewer hands.
7. Capitalism leads to globalism, which destroys culture and exacerbates inequality.
8. Without government protection of labor unions, workers would not obtain a fair wage.
9. Capitalism allows and rewards racism and segregation.

THE RICH GET RICHER AND THE POOR GET POORER

Critics of capitalism often identify it with inequality, whereas the ruling principle of education and schooling, they say, ought to be equality. How can a system that lavishly rewards the few be an appropriate vehicle for operating schools?

Capitalism allows for great inequality in incomes, but it is also profoundly egalitarian. Its institutions protect the equal rights of consumers and producers, deny privilege and authority to the powerful few, and distribute wealth based on each participant's contribution to satisfying the needs of others. Everyone, therefore, should be better off in a capitalist society.

Historical data on income in the United States show that *both the rich and the poor are getting richer.* Nobel Laureate economist Robert William Fogel reports that a standard measure of income inequality, called the Gini ratio, shows that inequality in the United States fell by about a third between the 1870s and the 1970s. This was due, in large part, to "the decline in the relative importance of land and physical capital, and the increasing importance of human capital (labor skills), in the process of production. . . . Since labor income is much more equally distributed than the income from land and physical capital, these shifting shares explain about three-quarters of the equalization in pretax incomes that occurred during the twentieth century."[2]

Since the 1970s, Gini ratios have risen slightly in the United States, meaning incomes are becoming less equal over time. But Fogel attributes most of the rise in inequality to higher-income workers putting in more hours of work, while lower-income workers reported working fewer hours. To the small extent that the rich got richer faster than the poor during the last two decades of the twentieth century, it was largely because the poor chose to work fewer hours when they could afford the basic necessities of life, whereas middle- and upper-income workers chose to continue working and reaped rewards for doing so.[3]

A comprehensive report on income inequality by W. Michael Cox and Richard Alm found that "the proportion of poor in the U.S., measured by consumption, fell steadily from 31 percent in 1949 to 13 percent in 1965 and to 2 percent at the end of the 1980s."[4] The official U.S. poverty rate (which is a measure of reported cash income rather than Cox and Alm's measure of consumption) declined from 13.8 percent in 1995 to 11.8 percent in 1999.[5] The child poverty rate fell even more sharply, from 20.8 percent in 1995 to 16.9 percent in 1999.

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[2]Robert William Fogel, *The Fourth Great Awakening and the Future of Egalitarianism* (Chicago: University of Chicago Press, 2000), 156–57.

[3]Ibid., 218.

[4]W. Michael Cox and Richard Alm, *Myths of Rich and Poor: Why We're Better Off Than We Think* (New York: Basic Books, 1999), 16.

[5]Dan Seligman, "The Welfare Surprise," *Forbes,* 25 December 2000, 94. Other data cited in this paragraph come from the same source.

New and contradictory reports on income distribution appear in the popular press every few months, and the loose ways they are variously calculated and reported makes it easy to lose sight of the long-term trends. Typically, they are statistical snapshots that overlook the rapid movement of households from lower to higher income levels, and movement in the opposite direction. Cox and Alm reported that "Only 5 percent of those in the bottom fifth in 1975 were still there in 1991. Where did they end up? A majority made it to the top three fifths of the income distribution—middle class or better. Most amazing of all, almost 3 out of 10 of the low-income earners from 1975 had risen to the uppermost 20 percent by 1991. More than three-quarters found their way into the two highest tiers of income earners for at least one year by 1991."[6]

A study by the Employment Policies Institute, released in 2001, confirmed the 1990s were an era of rapid upward income mobility. According to the report, "30 percent of all poor and near-poor families (i.e., up to twice the federal poverty level) in 1997 were no longer poor or near-poor by 1998. For families with incomes under the poverty level in 1997, nearly half had moved out of poverty by 1998. The research shows that the rate of movement out of poverty and near-poverty has risen throughout the 1990s, increasing steadily each year."[7]

CAPITALISM CAUSED THE GREAT DEPRESSION

Many Americans lost faith in capitalism during the Great Depression. People who were able to work could not find jobs, and basic needs and wants went unmet. Capitalism, to that generation, appears cyclical and unstable, whereas government is

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[6] Cox and Alm, *Myths,* 73.

[7] John Formby, Hoseong Kim, and John Bishop, *The Economic Well-being of Low-income Working Families* (Washington, DC: Employment Policies Institute, 2001). The quotation is from a summary appearing in the January 2002 issue of *EPI Edge,* the Institute's newsletter.

always there to help.[8] Something as important as schooling, they feel, should not be entrusted to a system that experiences periodic collapses.

But the assertion that capitalism is prone to boom and bust cycles is "pure myth, resting not on proof but on simple faith."[9] The Great Depression did not follow a period of reckless laissez-faire capitalism: Herbert Hoover was an interventionist of the first order, first as Secretary of Commerce under President Warren G. Harding and then as President himself. Nor did President Franklin D. Roosevelt's far-reaching employment projects and ventures into centralized planning help lead to economic recovery.

The evils of the Great Depression, according to Ludwig von Mises, "were not created by capitalism, but, on the contrary, by the endeavors to 'reform' and to 'improve' the operation of the market economy by interventionism."[10] Nobel laureate Milton Friedman made one of his most notable contributions to economics in a study of the causes of the Great Depression. In *A Monetary History of the United States, 1867–1960,* Friedman and coauthor Anna Jacobson Schwartz documented five government actions that caused the Great Depression:

- The Federal Reserve System discouraged large banks from restricting the convertibility of deposits into currency, a private action that stopped the wave of bank failures in earlier depressions.

[8]"Clearly, the best thing ever to happen for the cause of collectivism was the Great Depression. Somehow, despite the facts, the free market was blamed for the hardships of the Depression, and the high unemployment and general uncertainty that dominated this era enabled the federal government to solidify its power and bring to an end America's noble experiment with economic liberty and strong protection of private property rights. And once the welfare state was in place, it has proven impossible to dislodge." Jonathan Macey, "On the Failure of Libertarianism to Capture the Public Imagination," in Ellen Frankel Paul, Fred D. Miller Jr., and Jeffrey Paul, eds., *Problems of Market Liberalism* (Cambridge: Cambridge University Press, 1998), 399.

[9]Murray Rothbard, *America's Great Depression,* 3d ed. (1963; reprint, Kansas City, Mo.: Universal Press Syndicate, 1975), 2.

[10]Ludwig von Mises, *Human Action: A Treatise on Economics,* 3d rev. ed. (1949; reprint, Chicago: Henry Regnery Company, 1966), 852–53.

- The Federal Reserve reduced the amount of credit outstanding, and therefore the supply of money, in 1931 and again in 1933.
- Congress passed, and President Hoover approved, a major tax increase in June 1932.
- Rumors between the November 1932 election and his inauguration in March 1933 that President-elect Franklin D. Roosevelt would devalue the dollar (which he later did) caused the final banking panic.
- The national banking holiday declared by Roosevelt on March 6, 1933, undermined public confidence so greatly that 5,000 banks did not reopen soon after the holiday expired, and 2,000 closed permanently.[11]

Of these five government actions, the reduction in money supply was the most damaging. The total money supply contracted by 30 percent from 1929 to 1933, causing the price level to fall by approximately 50 percent.[12] This was entirely the fault of the federal government. As Friedman and Schwartz wrote, "if the pre-1914 banking system rather than the Federal Reserve System had been in existence in 1929, the money stock almost certainly would not have undergone a decline comparable to the one that occurred."[13]

The end of the Great Depression is just as misunderstood as its cause. It is an article of faith among many critics of capitalism that President Roosevelt and the federal government saved capitalism from self-destruction during the 1930s, either through domestic spending programs or by massive increases in military spending and wage and price controls imposed during World War II. But New Deal programs did more to perpetuate the depression than end it by "tending to impair the freedom and

[11]Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton: Princeton University Press, 1963).

[12]Merton H. Miller and Charles W. Upton, *Macroeconomics: A Neoclassical Introduction* (Chicago: University of Chicago Press, 1986), 306.

[13]Friedman and Schwartz, *Monetary History,* 693.

efficiency of the markets, to frighten venture capital, and to create frictions and uncertainties, and impediments to individual and corporate initiative."[14] Agricultural price support programs begun in the 1930s "led to vast amounts of food being deliberately destroyed at a time when malnutrition was a serious problem in the United States and hunger marches were taking place in cities across the country."[15]

Economic recovery coincided with large increases in the money supply and large-scale orders for military supplies, starting in 1940.[16] World War II was the reason for the latter development, but it is wrong and misleading to credit the war with ending the Great Depression. The killing of millions of people and the destruction of homes, factories, and other capital goods in Europe stimulated the U.S. economy by increasing demand for some types of goods and services—weapons and replacements of goods and assets lost to bombs. But in a healthy economy, this would merely bid up the prices of goods and services, leaving other demands unmet.

World War II helped lift the United States economy out of depression only because so many human and capital resources in the United States were idled by the government's incompetent fiscal and monetary policies. This meant the new demand could be filled without cutting back production of other goods and services. Genuine economic recovery came to the United States only when the government policies that caused the Great Depression were reversed and wartime controls over the economy were lifted.

The evidence seems quite clear that the Great Depression was the result of government failure, not any fundamental flaw in

[14]Benjamin M. Anderson, *Economics and the Public Welfare: A Financial and Economic History of the United States, 1914–1946* (1949; reprint, Indianapolis: Liberty Press, 1979), 483.

[15]Thomas Sowell, *Basic Economics: A Citizen's Guide to the Economy* (New York: Basic Books, 2000), 34.

[16]Friedman and Schwartz, *Monetary History,* 545: "Recovery came after the money stock had started to rise. . . . Doubtless, other factors helped to account for the onset of recovery and for its pace, but the rapid increase in the money stock certainly at the very least facilitated their operation." Also see p. 550.

markets, and government efforts to end it simply prolonged the suffering. War is not good for the economy. In fact it has the opposite effect: Past investments are lost, productivity is reduced, and opportunities for specialization are diminished. Capitalism is not inherently cyclical or unstable, although government misconduct has convinced many that it is.

CORPORATIONS EARN OBSCENE PROFITS

Many people oppose private businesses' operating schools because they believe they routinely pocket huge sums of money as profits, leaving less available to actually produce quality goods and services. If we relied more heavily on capitalism to educate children, would an unacceptably large share of education dollars be diverted from classrooms to the pockets of private businessmen and investors?

Although some entrepreneurs make wise decisions and large profits, their windfalls are the exception, not the rule. The total earnings of entrepreneurs in the United States are tiny compared to total national income. In a typical year, profits amount to less than 6 percent of national income, and from 1968 to 1998 they did not exceed 9 percent.[17] Economists estimate that "over a long period of years, after allowance is made for all losses, for a minimum 'riskless' interest on invested capital, and for an imputed 'reasonable' wage value of the services of people who run their own business, no net profit at all may be left over, and that there may even be a net loss."[18]

Most people, when they learn these facts, agree that income from profits and interest is justified by the benefits they produce

[17]Sowell, *Basic Economics,* 77. He cites data from the American Enterprise Institute.

[18]Henry Hazlitt, *Economics in One Lesson* (1979; reprint, San Francisco: Laissez Faire Books, 1996), 145. Frank Knight reached the same conclusion in 1921. See Frank H. Knight, *Risk, Uncertainty and Profit* (1921; reprint, Chicago: University of Chicago Press, 1971), 364–65.

for society. But then a second notion emerges: that the average profit of 6 or 9 percent is the right or moral rate of profit and that windfall profits above this level should be taxed away. This is fundamentally wrong for three reasons.

First, even the largest windfall profits in a capitalist economy result from voluntary exchanges conducted within the Rule of Law, and therefore their winners have a right to retain them.[19] If there are no legal barriers to entry into a business and if laws against the use of force or fraud are being enforced, there are no grounds for arguing that profits are excessive. If they were, other competitors would be drawn into the industry by the prospects of similarly high profits, and their presence would drive prices back down to marginal cost and profits back down to zero or average levels.

Second, leaving windfall profits in the hands of those who win them creates an enormous public benefit. The hope of earning large profits, not just average profits, inspires countless acts of risk-taking and experimentation that otherwise would not occur. Confiscating those profits would mean many fewer new inventions, new products, and innovations in production and distribution processes. Limiting the size of profits would discourage risk-taking by corporate CEOs who, because of their career interests and incentive structures, may already be more risk averse than their investors want.[20]

Third, changing the rules of private property and contract to allow the state to confiscate windfall profits would violate the requirements, set down by the Rule of Law, that just laws are general, negative, and unchanging. Such a violation would undermine public confidence in the permanence of the rules of commerce, which in turn would discourage investment and risk-taking. A key factor in the success of capitalist economies is their ability to attract and retain long-term investments, which add the most to the value of production. Such investments require that investors

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[19]Mancur Olson, *Power and Prosperity* (New York: Basic Books, 2000), pp. 194–95.

[20]Steven E. Landsburg, *The Armchair Economist: Economics and Everyday Life* (New York: Free Press, 1993), 26–28.

be confident that their investments are secure well into the future. Changing rules undermines the trust that is a crucial condition for such investments and consequently reduces the overall rate of wealth creation.[21]

Profits, as explained in Chapter 4, are the reward paid to entrepreneurs for anticipating consumer wants and assembling the resources needed to meet those needs efficiently. Without entrepreneurs, we have to rely on central planning of some sort to identify and prioritize production opportunities, an alternative that leads to inefficiency, bureaucracy, conflicts of interest, and other problems that increase costs much more than profits typically do. Profits, in short, are a small price to pay for the benefits entrepreneurship brings to consumers.

CORPORATIONS LIE, CHEAT, AND STEAL

Although competition among producers always benefits consumers, there is a long history of allegations that certain types of competition may be harmful. These claims typically originate from inefficient producers seeking to blame their demise on their competitor's tactics. Ironically, self-described consumer advocates often fall for such claims, thus lending credibility to them.

Predatory Pricing

The theory of predatory pricing originated in response to the tactics of oil companies and railroads in the United States at the end of the nineteenth and beginning of the twentieth centuries. Dominant firms in both industries were observed to be aggressively cutting prices in markets where they faced competition and raising prices where there was less competition. The price-cutting was so fierce that many railroads and oil companies were driven into bankruptcy. Meanwhile, customers in noncompetitive markets were extremely vocal in protesting the high prices they were being charged.

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[21] Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Free Press, 1995).

To understand why price-cutting was a favorite competitive tactic in these industries, consider the situation facing railroad companies. (The situation facing oil companies was very similar.) Railroads are capital-intensive enterprises: Huge amounts of money must be invested up front in rails, engines, and cars before reliable service can be offered to consumers. Once that up-front investment has been made, the marginal cost of each additional shipment or customer is very small. Faced with this small marginal cost, railroads saw they could cut prices on competitive routes to just their marginal costs (or even less) in order to attract customers away from competitors who were charging enough to cover their entire investment. To cover the cost of their original investments, the price-cutting railroads counted on being able to charge more in the future, once their competitors had been driven from the market.

The Microsoft antitrust lawsuit, filed in 1998 and settled in 2002, involved similar circumstances. Software companies, like railroads, make large up-front investments in writing software, but the marginal cost of making one more copy of the final product is practically zero. Software companies, like railroads, are suspected of engaging in predatory pricing to drive their competitors out of business, at which time they presumably will raise prices to monopoly levels.[22]

The theory of predatory pricing makes sense, but it has never worked in practice. In a case viewed for many years by economists and legal scholars as a classic example of predatory pricing, Standard Oil was ruled a monopoly by the U.S. Supreme Court in 1911 and, as a result, it was broken up. But Standard Oil was never able to raise its prices because of the threat of entry into the market by new companies and new products. Notably, neither the federal district court nor the U.S. Supreme Court found that Standard Oil's practices made kerosene prices higher than they

[22]Lawrence Summers, "The Wealth of Nations," speech delivered on May 10, 2000, distributed by the U.S. Treasury Department. For a full treatment of the debate, see David B. Kopel, *Antitrust after Microsoft: The Obsolescence of Antitrust in the Digital Era* (Chicago: The Heartland Institute, 2001).

otherwise would have been.[23] A study of the official court record by John S. McGee found that "Standard Oil did not use predatory price discrimination to drive out competing refiners, nor did its pricing practice have that effect. Whereas there may be a very few cases in which retail kerosene peddlers or dealers went out of business after or during price cutting, there is no real proof that Standard's pricing policies were responsible. I am convinced that Standard did not systematically, if ever, use local price cutting in retailing, or anywhere else, to reduce competition."[24]

The Standard Oil case is not exceptional. What usually happens when a company attempts to engage in predatory pricing is that its competitors match its price cuts, causing losses to be greater and longer-lasting than expected. The competitors may also step up their offerings to those who are being over-charged, reducing what the predatory pricer had hoped would be offsetting income. New competition emerges from companies that produce similar or substitute goods and services, making it impossible for the predatory pricer to raise prices to their pre-cut levels. For all these reasons, few companies engage in predatory pricing, and those that do usually benefit consumers by absorbing losses attributable to their poor pricing decisions.

Law and economics scholar John R. Lott Jr. makes a devastating case against the theory of predatory pricing in a 1999 book titled *Are Predatory Commitments Credible?* He maintains that "antitrust enforcement was intended to punish more efficient firms rather than to increase efficiency."[25] Other experts reach the same conclusions.[26]

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[23] *Standard Oil Co. of New Jersey v. United States,* 221 U.S. 1 (1911), affirming, 173 F. 177 (E.D. Mo. 1909).

[24] John S. McGee, "Predatory Price Cutting: The Standard Oil (N.J.) Case," *Journal of Law and Economics* 1 (October 1958): 169.

[25] John R. Lott Jr., *Are Predatory Commitments Credible?* (Chicago: University of Chicago Press, 1999), 120, 122.

[26] See Fred S. McChesney and William F. Shughart II, *The Causes and Consequences of Antitrust: The Public-Choice Perspective* (Chicago: University of Chicago Press, 1995); Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure* (Oakland, Calif.: The Independent Institute, 1990); Richard A. Posner, *Natural Monopoly and Its Regulation* (1969; reprint, Washington, DC: Cato Institute, 1999).

ADVERTISING, COMPETITION, AND WASTE

It is often alleged that businesses spend billions of dollars a year on advertising to create demand for their products and mislead consumers about their products' qualities. The massive advertising budgets for major brands allegedly pose a significant barrier to competition and consumer choice by making it prohibitively expensive for a newcomer to compete. A slightly more benign interpretation of advertising is that it is simply wasteful, promoting the needless proliferation of consumer products that differ in only trivial ways, if at all. Would money spent on packaging and jingles be better left in consumers' pockets?

Much of the popular belief that businesses manipulate public demand for their products tracks back to a famous book published in the 1950s titled *The Hidden Persuaders*.[27] Its author, Vance Packard, alleged a theater had flashed "Drink Coca-Cola" and "Eat popcorn" messages on the screen in such short intervals (1/300th of a second) that viewers could not see them, yet were subliminally influenced to buy more soda and popcorn.

The claim sold many books, but it was never substantiated. According to Professor Martin Block, chairman of integrated marketing communications at Northwestern University, "I would put subliminal advertising in exactly the same category as I would put Loch Ness monsters and alien abductions. It is probably true that out of all the millions and millions of ads that have been produced over the last 50 years, there's got to be some that have tried it. But I don't think you could find anyone who has a serious position in advertising who would say they've ever done it or even know of a case."[28]

Compared with the value of goods and services produced each year in the United States, spending on advertising of all kinds is small—about 1.5 percent.[29] Of course, it seems as though much

[27]Vance Packard, *The Hidden Persuaders* (New York: David McKay Co., Inc., 1957).

[28]Bryan Smith, "Do Ads Play Mind Games?" *Chicago Sun-Times,* 14 September 2000, 6.

[29]Deirdre McCloskey, "Bourgeois Virtue," *American Scholar* 63, no. 2 (spring 1994): 184.

more than this is spent because most advertising is designed to capture our attention.

Advertising is an intrinsic and necessary part of any economic system that relies on voluntary choices to allocate goods and services. "Consumers do not always know what products are available, and even if they know of their existence, they are not always aware of their properties," writes Stephen Littlechild. "And consumers cannot, of course, seek further information about a product or property of whose existence they are unaware. Consequently, there is an important role for the manufacturer in bringing these new products to their notice."[30]

Other Myths of Ruinous Competition

Predatory pricing and wasteful advertising are just two types of competitive behavior market critics say belie the claim that competition is the consumer's friend. The notion that there can be good and bad competition draws much of its rhetorical power from historical examples that, upon closer inspection, turn out to be myths. Among the most popular are the following:

- General Motors and oil companies bought up railroads and tore up their tracks to prevent commuter rail service from competing with cars and trucks.[31]
- The typewriter and computer keyboard now in popular use beat out a superior alternative, the Dvorak keyboard, because the then-dominant typewriter manufacturers did not want to lose their markets.[32]

[30]Stephen C. Littlechild, *The Fallacy of the Mixed Economy* (Washington, DC: Cato Institute, 1979), 27. For a compendium of recent scholarly and empirical research on the positive role played by advertising in a capitalist system, see Robert B. Ekelund Jr. and David S. Saurman, *Advertising and the Market Process* (San Francisco: Pacific Research Institute, 1988).

[31]Cliff Slater, "General Motors and the Demise of Streetcars," *Transportation Quarterly* 51, no. 3 (summer 1997): 45–66; James A. Dunn Jr., *Driving Forces: The Automobile, Its Enemies and the Politics of Mobility* (Washington, DC: The Brookings Institution, 1998), 7–10.

[32]Stan J. Liebowitz and Stephen E. Margolis, *Winners, Losers & Microsoft* (Oakland, Calif.: The Independent Institute, 1999), 23–44.

- The VHS video standard displaced the superior Beta standard because the manufacturers of the former had more money for advertising than the latter.[33]
- Microsoft beat Apple and other competitors with superior computer operating systems by using anticompetitive business practices and devious marketing.[34]

Each of these examples of the failure of competition is a myth. In every case, competitive processes at work led to the development and marketing of the products consumers wanted at the best prices. There was no consumer harm and no possibility the outcome would have been better had government intervened.

CAPITALISM HARMS THE ENVIRONMENT

Today most of us are environmentalists, so the environmental effects of capitalism concern us greatly. If we believe capitalism allows greedy business owners to pollute the air and rivers without concern for the future or the health of others, we are unlikely to entrust capitalism with the education of future generations.

One way to judge the impact of capitalism on the environment is to compare the environmental records of capitalist countries with those of countries with precapitalist, socialist, or communist economies.[35] The record clearly shows environmental conditions are improving in every capitalist country in the world and deteriorating only in noncapitalist countries.[36]

Environmental conditions in the former Soviet Union prior to that communist nation's collapse, for example, were devastating

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[33]Ibid., 120–27.

[34]Kopel, *Antitrust after Microsoft,* 18–20. (In note 22 above.)

[35]Steven Hayward, Erin Schiller, and Elizabeth Fowler, *1999 Index of Leading Environmental Indicators* (San Francisco: Pacific Research Institute, 1999).

[36]Julian Simon and Herman Kahn, *The Resourceful Earth* (New York: Basil Blackwell, 1984), 438–89; Julian Simon, *The Ultimate Resource* (1981; reprint, Princeton: Princeton University Press, 1996).

and getting worse.[37] Untreated sewage was routinely dumped in the country's rivers, workers were exposed to high levels of toxic chemicals in their workplaces, and air quality was so poor in many major cities that children suffered asthma and other breathing disorders at epidemic levels.

Some environmentalists say it is unfair to compare environmental progress in a very affluent nation, such as the United States, to conditions in very poor nations, such as those in Africa. But it was the latter's rejection of capitalism that made those countries poor in the first place. Moreover, comparing the United States to developed countries with mixed or socialist economies also reveals a considerable gap on a wide range of environmental indicators. Comparing urban air quality and water quality in the largest rivers in the United States, France, Germany, and England, for example, reveals better conditions in the United States.[38]

Emerging capitalist countries experience rising levels of pollution attributable to rapid industrialization, but history reveals this to be a transitional period followed by declining emissions and rising environmental quality.[39] There is no evidence, prior to its economic collapse, that conditions in the former Soviet Union were improving or ever would improve. There is no evidence today that many of the nations of Africa are creating the institutions necessary to stop the destruction of their natural resources or lower the alarming mortality and morbidity rates of their people.

Environmental Conditions in the United States

In the United States, the environment is unequivocally becoming cleaner and safer. According to the Environmental Protection

[37]Peter J. Hill, "Environmental Problems under Socialism," *Cato Journal* 12, no. 2 (fall 1992): 321–35; Tom Bissell, "Eternal Winter: Lessons of the Aral Sea Disaster," *Harpers Magazine,* April 2002, 41–56.

[38]Joseph L. Bast, Peter J. Hill, and Richard C. Rue, *Eco-Sanity: A Common-Sense Guide to Environmentalism* (Lanham, Md.: Madison Books, 1996), 18. For example, the Seine River in France has about twice the level of biological oxygen demand, five times the level of nitrates, and 3.6 times the level of phosphates as the Mississippi.

[39]Mikhail S. Bernstam, *The Wealth of Nations and the Environment* (London: Institute of Economic Affairs, 1991).

Agency (EPA), total air pollution emissions in the United States fell 34 percent between 1970 and 1990.[40] Particulate-matter emissions fell by 60 percent, sulfur oxides by 25 percent, carbon monoxide by 40 percent, and lead by 96 percent.

Between 1987–1992 and 1994–1999, the number of bad-air days (when air quality failed to meet federal standards) fell 82 percent in Newark, 54 percent in Los Angeles, 78 percent in Chicago, and 69 percent in Milwaukee.[41] Total emissions of air pollutants tracked by the EPA are forecast to fall by 22 percent between 1997 and 2015 (assuming there are no new air-quality regulations) thanks to reductions in tailpipe emissions for most types of vehicles (already down 96 percent or more since 1978) and cleaner fuels.

According to the EPA, water quality also has improved, and in some cases dramatically so.[42] Sports fishing has returned to all five of the Great Lakes, the number of fishing advisories has fallen, and a debate has started concerning the scientific basis of many of the remaining advisories. According to the Council on Environmental Quality, levels of PCBs, DDT, and other toxins in the Great Lakes fell dramatically during the 1970s and continued to fall (at a slower rate) during the 1980s and 1990s.[43]

The number of wooded acres in the United States has grown by 20 percent in the past twenty years. The average annual wood growth in the United States today is three times what it was in 1920.[44] In Vermont, for example, the area covered by forests has increased from 35 percent a hundred years ago to

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[40]Environmental Protection Agency, *National Air Pollutant Emission Trends, 1900–1994* (Washington, DC: EPA, October 1995), ES6ff.

[41]Tech Environmental, Inc., "Progress in Reducing National Air Pollutant Emissions, 1970–2015," report produced for the Foundation for Clean Air Progress (Washington, DC, June 1999).

[42]Environmental Protection Agency, *The Quality of Our Nation's Water: Executive Summary of the NWQI: 1996 Report to Congress* (Washington, DC: EPA, 1998).

[43]Environmental Protection Agency, *Environmental Quality 1992* (Washington, DC: EPA, 1992), 389–91.

[44]Hal Salwasser, "Gaining Perspective: Forestry for the Future," *Journal of Forestry*, November 1990, 32.

about 76 percent today.[45] In the four states of Maine, New Hampshire, Vermont, and New York, there are 26 million more acres of forest today than there were at the turn of the century.[46] As a result of this re-greening of America, wildlife is enjoying a big comeback. According to the U.S. Fish and Wildlife Service, breeding populations of bald eagles in the lower 48 states have doubled every six or seven years since the late 1970s. In 1994, there were more than 4,000 active nests, five times the number reported in 1974.[47]

Why Capitalism Protects the Environment

What has made this vast improvement in environmental quality possible in the United States? Why have countries without capitalist institutions made less progress?

The security of personal possessions made possible by the capitalist institution of private-property rights is a key reason why capitalism protects the environment. Where property rights are secure, the owners of property (land as well as other physical assets) are more likely to invest in improvements that increase the property's long-term value. Why plant trees if your right to eventually harvest them is at risk? Why manage a forest for sustained yields in the future if someone else will capture the profit of their eventual harvest?

Evidence that secure property rights are the key to good stewardship of assets is all around us. Privately owned houses are better maintained than rental units. Privately owned cars and trucks are better maintained than fleet vehicles (owned by an employer) and leased vehicles. In the former Soviet Union, privately owned gardens—representing only a small share of the land devoted to agriculture—produced as much as half of the fruits and vegetables produced by the entire country. In virtually every neighborhood in the United States, most front yards are neatly groomed

[45] Evergreen Foundation, "The Great Forest Debate," May 1993, p. 12.

[46] Ibid.

[47] *World Topics Year Book 1995* (Lake Bluff, Ill.: United Educators, Inc.), 220.

and often elaborately landscaped, whereas the strip of public land between the sidewalk and the street is often weedy, poorly trimmed, and neglected.

Markets, the second capitalist institution, tend to increase efficiency and reduce waste by putting resources under the control of those who value them most highly. This tends to ratchet downward the amount of any resource that is not used or consumed during production, a practice that produces cleaner-burning fuels and machines, lower-emission manufacturing processes, fewer byproducts shipped to landfills, and so on. A good example of this is the fact that the amount of energy required to produce a dollar of goods and services in the United States fell 1.3 percent a year from 1985 to 2000 and is expected to fall 1.6 percent per year from 2000 to 2020.[48]

Finally, the wealth created by the institutions of capitalism makes it possible to invest more resources to protect the environment. Once again, the United States is the best example of this tendency. The cost of complying with environmental regulations in 2000 was approximately $267 billion, or nearly $2,000 for every household.[49] Only a capitalist society can afford to spend so much.

MONOPOLIES AND CARTELS ARE COMMON

Many people seem to believe successful businesses in a capitalist system tend to grow over time until they dominate their industry, becoming monopolies. By merging with competitors and acquiring smaller firms, some business grow large enough to dominate their industries. By moving schools from the public sector to the private sector, could it be that some day our children's education will be in the hands of a powerful and unaccountable monopoly?

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[48]U.S. Department of Energy, Energy Information Agency, *Annual Energy Outlook 2001* (November 2000).

[49]Thomas D. Hopkins, *Regulatory Costs in Profile* (St. Louis, Mo.: Center for the Study of American Business, 1 August 1996).

The potential for monopolies is kept in check by many factors. For example, changes in technology, markets, and regulations have worked to increase the optimal size of firms in some industries, leading to a wave of mergers in the 1990s,[50] but technological and demographic changes worked to the benefit of small firms in other industries. As a result, the percentage of U.S. workers employed by corporations with workforces of 500 or more fell from 43 percent in 1979 to only 19 percent in 1998.[51] Six out of ten workers are now employed outside the manufacturing sector of the economy in industries where business size tends to be smaller and ownership more widely dispersed.

Advances in computer and telecommunications technologies—the personal computer, the Internet, and the cell phone, to name three—allow millions of people to work part-time or full-time from their own homes. Accommodating the increased demand for leisure-time activities and care for an aging population is giving rise to countless small businesses in entertainment, education, and health care.[52]

Our perception of trends in corporate mergers is distorted because companies often announce mergers with great fanfare (to help boost share prices) and newspapers then announce with equal fanfare the layoffs that occur as the newly merged firms purge themselves of duplicative positions. But divestitures—the selling off of parts of a company—are usually done silently to avoid reducing investor confidence in the parent company's shares. Because jobs are seldom lost in a divestiture, newspapers are less likely to report them.

It has been estimated that one-third of all acquisitions made during the 1960s and 1970s were divested in the takeover and

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[50]Robert B. Ekelund Jr. and Mark Thornton, "The Cost of Merger Delay in Restructuring Industries," Heartland Policy Study #90, Chicago, The Heartland Institute, June 1999, 17.

[51]Richard C. Huseman and Jon P. Goodman, *Leading with Knowledge: The Nature of Competition in the 21st Century* (Thousand Oaks, Calif.: SAGE Publications, 1999), ix.

[52]Alvin Toffler, *Powershift* (New York: Bantam Books, 1990); Fogel, *Future of Egalitarianism,* 183, 235ff. (In note 2 above.)

buyout movements of the 1980s and 1990s.[53] At the same time, many new businesses were created, often too small to attract the attention of reporters. Evidence that divestitures, not mergers, were the biggest trend during the past two decades can be found in employment and sales by the Fortune 500 companies (the 500 biggest companies in the country). Their share of employment fell from 16 percent in 1980 to 11.3 percent in 1993, and their sales as a percent of gross domestic product (GDP) fell 39 percent during the same period.[54]

In the private sector, a small group of producers conspiring to limit competition and consumer choices is called a cartel. Cartels are able to resist market forces when government policies restrict entry by potential competitors.[55] The same is true of the government school cartel: Attendance zones prevent competition among government schools, and the government monopoly on tax dollars raised for schooling prevents entry by private schools. The long waiting lists for admission to charter schools and for private scholarships and vouchers to attend private schools are evidence that a legal monopoly on public financing keeps millions of students in the government schools they currently attend.

Comparing government schools to private-sector cartels is unfair to the private-sector cartels. Private-sector firms may not use force or fraud against competitors or consumers to keep a cartel intact. Government schools, by contrast, are accountable only to school boards and elected officials, who have proven to be malleable and lax about demanding value for the taxpayers' money they collect and spend. They use their taxing power to compel consumers to buy their services, and they conceal or obfuscate evidence of poor results.

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[53]Peter G. Klein, "Mergers and the Market for Corporate Control," in *The Elgar Companion to Austrian Economics,* ed. Peter J. Boettke (Cheltenham, UK: Edward Elgar Publishing, Inc., 1994), 399.

[54]James Rolph Edwards, "The Myth of Corporate Power," *Liberty,* January 2001, 41–42.

[55]See Yale Brozen, *Is Government the Source of Monopoly? And Other Essays* (Washington, DC: Cato Institute, 1980).

Finally, although monopolies and cartels are much discussed, both circumstances are rare and short-lived. The threat of entry by new competitors makes every market contestable and hence prevents firms with large market shares from exercising market power.[56] Competition often comes from the producers of new and better products, not merely copies of the product already being produced by the market leader. Firms operating on the fringe of a market include those with slightly higher production costs, producers of slightly different products, or producers who ship their products to different markets. They are prompted by the presence of high profits to enter the fray with a better product or a lower price or both.

GLOBALISM HURTS WORKERS AND THE POOR

Would you entrust the education of your children to a system that is concentrating power into the hands of a few multinational corporations, destroying local cultures, and exacerbating inequalities between rich and poor around the world?[57] John Sweeney, president of the AFL-CIO, says "the AFL-CIO and our affiliates believe the ultimate test is whether globalization increases freedom, promotes democracy, and helps to lift the poor from poverty; whether it is empowering the many, not just the few; whether its blessings are widely shared; whether it works for working people. Clearly, the global market that has been forged in the last decades fails this test."[58]

Globalism is shorthand for the gradual integration of markets worldwide. Many products once made in the United States are

[56]William J. Baumol, John C. Panzar, and Robert D. Willig, *Contestable Markets and the Theory of Industry Structure* (New York: Harcourt Brace Jovanovich, Inc., 1982). See also Sanford Ikeda, "Market Process," in *The Elgar Companion to Austrian Economics,* ed. Peter J. Boettke (Cheltenham, UK: Edward Elgar Publishing, Inc., 1994), 25.

[57]Naomi Klein, "Enemy of the Techno-State," *Forbes ASAP,* 21 August 2000, 172.

[58]Quoted in Michael B. Barkey, "Globalization Empowers Everyone," *Intellectual Ammunition* 9, no. 6 (November/December 2000): 1.

now made in other countries, and a growing share of products made domestically are exported to consumers in other countries. Globalism means the highest levels of management of some major companies are no longer in the United States, as in the case of Chrysler Corporation (now DaimlerChrysler) and Amoco Corporation (once BP-Amoco, now simply BP). Globalism is driven by

- technological advances, which make it possible to generate and exchange vast amounts of data about prices, production, and demand at very low costs and literally at the speed of light
- the spread of capitalist institutions to developing countries, which has reduced the risks faced by entrepreneurs who choose to produce or sell products in those countries
- adoption of treaties that reduce trade barriers, such as tariffs on imported goods and subsidies to local producers
- a huge increase in international travel brought about partly by the deregulation of airlines in the United States and other Western countries
- an increase in the influence of international organizations, such as the United Nations and the International Monetary Fund, over fiscal and other policies by member nations

What we know of capitalism tells us that globalism is a good thing. The integration of previously isolated markets means there are greater rewards for specialization of labor and therefore new opportunities for productivity growth.[59] As more of the world's resources are managed by free people rather than despots and central planners, more wealth is generated and income and status mobility increase. As voluntary trade replaces coercion, there is hope that globalism will reduce the frequency and destructiveness

[59]Adam Smith, *An Inquiry into the Causes of the Wealth of Nations* (1776; reprint, Chicago: University of Chicago Press, 1976).

of wars among nations.[60] "Globalization is at heart a thoroughly liberal process—an enemy of tyrants, censors, and monopolies."[61]

"Openness to international trade raises incomes of the poor by raising overall incomes," concludes an authoritative study of macroeconomic policies in 125 countries published by the Development Research Group of the World Bank in 2000.[62] It goes on to say that the ratio of incomes of the rich and poor is unaffected. Private property rights, general stability, and openness, the study concludes, "directly create a good environment for poor households to increase their production and income."

The remarkable wealth-creating powers of global capitalism can clearly be seen in the data reported in Table 5.1. Real (inflation-adjusted) per-capita income worldwide has soared some 600 percent since 1870, even as global population rose by 400 percent. The twentieth century—the century of capitalism—brought unprecedented and rising prosperity.

According to Harvard economist Robert J. Barro, income data for the past 30 years show "a dramatic decline in world poverty."[63] The number of people earning less than \$1 a day fell 36 percent from 1970 to the end of the 1990s, and the number earning \$2 a day fell 25 percent.

A recent report from Clare Short, a member of Britain's liberal Labor Party and then Secretary of State for International Development, found that "globalisation creates unprecedented new opportunities for sustainable development and poverty reduction."[64] Short goes on to say:

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[60]For reprints of several classic formulations of free trade's contribution to world peace, see David Boaz, ed., *The Libertarian Reader* (New York: The Free Press, 1997), 319–41.

[61]John Micklethwait and Adrian Woodridge, "It Could Happen Again," *Forbes ASAP,* 21 August 2000, p. 186.

[62]Quoted in Barkey, "Globalization Empowers Everyone," 1.

[63]Robert J. Barro, "The U.N. is Dead Wrong on Poverty and Inequality," *BusinessWeek,* 6 May 2002, 24.

[64]Clare Short, *Eliminating World Poverty: Making Globalisation Work for the Poor,* White Paper on International Development, London, Secretary of State for International Development, December 2000, 13. The second quote is from pp. 17–18.

TABLE 5.1 The Entire World Is Growing Richer (gross domestic product/capita in 1990 dollars)

Year	*GDP/capita*	*World population (millions)*
1820	$ 651	1.07
1870	895	1.26
1913	1539	1.77
1950	2138	2.51
1992	5145	5.44

SOURCE: Deirdre McCloskey, "Learning to Love Globalization," *Eastern Economic Journal* 25, no. 1 (winter 1999): 120, citing OECD data.

> Many believe that globalisation causes rising levels of inequality and poverty. The best evidence to date suggests that there is no systematic relationship between openness and inequality or between growth and inequality. . . . Over recent decades, inequality has risen in some cases and fallen in others, in both fast-growing and slower-growing economies. Through expanding access to ideas, technology, goods, services and capital, globalisation can certainly create the conditions for faster economic growth. And the progress which has been made over the last few decades in reducing the proportion of people living in poverty has been largely the result of economic growth: raising incomes generally, including those of poor people. Economic growth is an indispensable requirement for poverty reduction.

It should not be overlooked that globalism means extending American ideas about civil rights to groups facing oppression around the world. Keiko Aoki, a spokesperson for the Tokyo Women's Plaza, a civic group, recently said Japanese women "have learned a lot about women's rights from women's groups in the United States."[65] The Labor Party White Paper also comments

[65]Peter Hadfield, "Male Pattern Boldness," *U.S. News & World Report,* 15 January 2001, 28.

on the importance of secure property rights to the advancement of women in developing countries.[66]

LABOR UNIONS PROTECT WORKERS FROM EXPLOITATION

People who believe unions are necessary to protect workers from exploitation by their employers are not likely to embrace a reform plan that replaces heavily unionized government schools with largely nonunion private schools. They may even believe proposals to shift schooling from the public sector to the private are thinly disguised anti-union campaigns.

As the late Benjamin Rogge wrote, "the weakness of the individual worker in obtaining 'fair' wages is one of the most durable and widely believed myths in the economic folklore of the modern world."[67] Such sentiments were once more widespread than they are today because the portion of the U.S. workforce belonging to a union has fallen from its high of about 35 percent in the 1950s to about 14.5 percent today. More people realize that their own productivity—not the negotiating skill of a union steward—is the source of their earning power. But the currency of the myth serves to illustrate how misinformed most people remain about unions and their role in a capitalist economy.

The misunderstanding usually starts with a false notion of the condition of workers before unions became commonplace in the 1930s and 1940s. Labor union propaganda portrays labor history in the United States as steady progress from the exploitation of unorganized workers by ruthless capitalists to a hard-won parity between unionized workers and their employers. Such histories

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[66]"Poor people, especially poor women, often lack land rights. Established property rights are needed not just for day-to-day security, but also to provide collateral against which people can borrow and invest. But these rights are often lacking. For example, in the Philippines, establishing legal ownership takes 168 steps and between 13–25 years." Short, *Eliminating World Poverty,* 32.

[67]Benjamin A. Rogge, *Can Capitalism Survive?* (Indianapolis: Liberty Press, 1979), 171.

draw liberally from the work of Karl Marx, such English socialists such as Beatrice and Sidney Webb, and the fiction of Charles Dickens and Upton Sinclair.

Such accounts of capitalism's past persuaded even the best and brightest of a previous generation of thinkers that capitalism harms the workers.[68] The accounts are, nonetheless, largely untrue. Factual data about life spans, consumption, output, and other measures of the quality of life document how the early years of the Industrial Revolution in Britain and the United States were characterized by rising living standards for the vast majority of workers. As Deirdre McCloskey says, real per capita income in Britain went from $1,756 in 1820 to $3,263 in 1870, "nearly doubling in the face of exploding population during the fifty years that the avant garde of the European intelligentsia decided that capitalism was a bad idea."[69] Workers in the United States experienced a similarly dramatic improvement in their condition.

The source of this improvement in living conditions, as Thomas Sowell wrote, "was not the banning of sweatshop labor but the enormous increase in wealth-generating capacity that raised American workers to higher levels of prosperity over the years, while enabling consumers to buy their products around the world."[70]

Labor unions did not arise out of compassion for those who were ill-paid or unemployed. Rather, they emerged from the less noble motive of better-paid elites to keep the ill-paid and

[68]Friedrich Hayek quotes the famous intellectual Bertrand Russell: "I do not think any student of economic history can doubt that the average happiness in England in the early nineteenth century was lower than it had been a hundred years earlier; and this was due almost entirely to scientific technique." Hayek comments, "The intelligent layman can hardly be blamed if he believes that such a categorical statement from a writer of this rank must be true." Friedrich A. Hayek, ed., *Capitalism and the Historians* (Chicago: University of Chicago Press, 1954), 13.

[69]Deirdre McCloskey, "Learning to Love Globalization," *Eastern Economic Journal* 25, no. 1 (winter 1999): 120.

[70]Thomas Sowell, *Race and Culture: A World View* (New York: Basic Books, 1994), 92.

unemployed from entering their trades and driving down their wages.[71] Union battles occurred (and still occur) between the over-paid and the under-paid, the skilled and the relatively unskilled. As Henry Hazlitt wrote, "For the pickets are really being used, not primarily against the employer, but against other workers. These other workers are willing to take the jobs that the old employees have vacated, and at the wages that the old employees now reject."[72]

Not surprisingly, the effect of unions has been largely to shift income from unskilled and lower-paid workers to better-paid skilled workers.[73] Often, this has implicit and even explicit racial overtones, as when unions in northern states worked hard to prevent the entry of skilled African-American craftsmen into the workforce.[74] Unless they improve efficiency and the productivity of their members, unions do not add to the output from which labor's wages are paid. Consequently, they cannot increase real wages, but only redistribute them from one group of workers to another.

"All this does not mean that unions can serve no useful or legitimate function," wrote Hazlitt. In some cases it may be more efficient for an employer to work with employee representatives rather than attempt to negotiate with individual employees. By electing coworkers as their representatives, union members are more likely to trust their spokespersons with details about working conditions and opportunities. Historically in the United States, and still today in many developing countries, unions can play important roles in demanding and implementing protection for the health of their members.

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[71]W. H. Hutt, *The Theory of Collective Bargaining 1930–1975* (Washington, DC: Cato Institute, 1980); Thomas Sowell, *Knowledge & Decisions* (New York: Basic Books, 1980), 186.

[72]Hazlitt, *Economics in One Lesson,* 126.

[73]Albert Rees, *The Economics of Trade Unions,* rev. ed. (Chicago: University of Chicago Press, 1977), 90–91, 186.

[74]Sowell, *Race and Culture,* 99; Walter Williams, *The State against Blacks* (New York: McGraw-Hill, 1982).

Unions may be as natural an institution of capitalism as the firm, although the myriad laws and policies that favor unions over employers make this difficult to prove. Unions can and do play important roles in resolving conflicts between employers and employees and improving working conditions. Historically, however, they were not responsible for the general improvement in the condition of workers. Credit for that goes to the rising productivity of each worker, and this in turn flowed from the institutions of capitalism.

CAPITALISM REWARDS RACISM AND SEGREGATION

Endless propagandizing by the National Association for the Advancement of Colored People (NAACP), the American Civil Liberties Union (ACLU), and other civil rights organizations has left many people thoroughly confused about the roles of capitalism and government in the civil rights movement. Many people believe capitalism caused slavery and that government ended it. This is untrue.

Capitalism could not possibly be the cause of slavery because slavery preceded capitalism as the dominant social order in virtually all parts of the world.[75] Slavery was characteristic of the classical civilizations of Athens and Rome and is discussed and defended in much of their great literature. Slavery was practiced without regard to race in Europe, Africa, and Asia, and by Native Americans in North and South America.

Slavery in the United States arose from belief in the myth of African-American racial inferiority, which was reinforced in the South by religious beliefs. In its day-to-day operation, it more closely resembled a government program than a capitalist institution. "Slavery was quintessentially about one person assuming, through brute force and the legalized violence of his government,

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[75]Orlando Patterson, *Freedom in the Making of Western Culture* (New York: Basic Books, 1991).

absolute power and authority over another," wrote Orlando Patterson. "The slave was reduced in law and civic life to a non-person."[76]

Slavery is obviously at odds with the principles and demands of capitalism described in Chapter 4: self-ownership, freedom to trade, voluntary contracts, and equality. All of the important classical liberal writers, including Locke, Smith, Franklin, Jefferson, Madison, and Montesquieu, clearly understood the universal application of their ideas and consequently abhorred slavery.[77] Their libertarian writings formed the basis for ending slavery in the United States, even if the founders themselves did not rise above the circumstances of their times.

Slavery in the United States was losing its place to the institutions of capitalism around the time of the Civil War. Historians debate whether slavery would have been extinguished by competitive pressures from the capitalist North without a single shot being fired, as it had ended in other nations.[78] Was the Civil War fought, as Abraham Lincoln said in his Gettysburg Address, to defend "the proposition that all men are created equal," or strictly to preserve the union, as Lincoln repeatedly said when campaigning for the Presidency?[79]

Republicans, Robert William Fogel writes, "urged the Northern electorate to vote for them not because it was their Christian duty

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[76]Orlando Patterson, *Rituals of Blood: Consequences of Slavery in Two American Centuries* (Washington, DC: Civitas/Counterpoint, 1998), 27.

[77]Jefferson included a paragraph denouncing slavery in his first draft of the Declaration of Independence, but it was struck out before the document was approved. See Carl L. Becker, *The Declaration of Independence: A Study in the History of Political Ideas* (1920; reprint, New York: Random House, 1942), 212ff. Benjamin Franklin was the first president of the Pennsylvania Society for Promoting the Abolition of Slavery. See Dixon Wecter, "Introduction" to Benjamin Franklin's *Autobiography* (San Francisco: Rinehart Press, 1969), ix. Montesquieu's *The Spirit of the Laws,* published in 1748, denounces slavery at some length in Book XV.

[78]Jeffrey Rogers Hummel, *Emancipating Slaves, Enslaving Free Men* (Chicago: Open Court Publishing Company, 1996).

[79]See Webb Garrison, *The Lincoln No One Knows* (Nashville: Rutledge Hill Press, 1993).

to free the slaves but in order to prevent slaveholders from seizing land in the territories that rightly belonged to Northern whites, to prevent slaveholders from reducing the wages of Northern workers by inundating Northern labor markets with slaves, and to prevent the 'slave power' . . . from seizing control of the American government."[80] In other words, northerners recognized slavery to be a threat to their businesses because it operated according to principles that were fundamentally incompatible with those of capitalism.

The abolition of slavery was followed by a brief period of relative freedom and economic advancement by African-Americans. Self-help efforts, such as those led by Booker T. Washington (1856–1915), showed great promise in creating an economic foundation from which African-American culture could recover from the trauma and injustices of slavery and share in the great American experiment in freedom.[81] This promising start was stopped, not by capitalism, but by government, in the form of Jim Crow laws designed to exclude African-Americans from the rest of society by placing them in segregated neighborhoods, schools, and transit and public accommodations.

Sociologist William Julius Wilson, describing the period before World War II, writes, "Except for the brief period of fluid race relations in the North from 1870 to 1890, the state was a major instrument of racial oppression."[82] This included school boards: In the years following the Civil War, school boards in the South acted as "engines of racial exploitation in which the taxes

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[80]Fogel, *Future of Egalitarianism,* 22. See also Robert William Fogel, *Without Consent or Contract: The Rise and Fall of American Slavery* (New York: Norton Books, 1991).

[81]Booker T. Washington, *Up From Slavery* (1901; reprint, New York: Gramercy Books, 1993).

[82]William Julius Wilson, *The Declining Significance of Race* (Chicago: University of Chicago Press, 1978), 150.

of poor blacks helped pay for white education,"[83] a pattern some say continues to this day.[84]

Jim Crow laws did not arise from institutions of capitalism or precapitalist feudal society but were invented and used by opponents of integration to exclude African-Americans from mainstream political and economic life. "The Jim Crow laws, unlike feudal laws, did not assign the subordinate group a fixed status in society," wrote C. Vann Woodward.[85] He pointed to the statist, rather than capitalist, character of Jim Crow laws when he quoted historian Edgar Gardner Murphy: "Its spirit is that of an all-absorbing autocracy of race, an animus of aggrandizement which makes, in the imagination of the white man, an absolute identification of the strong race with the very being of the state."[86]

Unlike most governments during this period, many private employers were actively working to bring African-Americans into the economic mainstream. "Such courtesy and deference as they have won may have been in considerable measure inspired by competition for the increased purchasing power of the Negro," Woodward wrote in 1966.[87] Wilson also commented on the vital role in reducing segregation and discrimination played by employers pursuing profits by hiring the least costly labor: "Indeed, the determination of industrialists to ignore racial norms of exclusion and to hire black workers was one of the main reasons why the industry-wide unions reversed their racial poli-

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[83]Hummel, *Emancipating Slaves, Enslaving Free Men*, 316; Robert A. Margo, *Race and Schooling in the South, 1880–1950* (Chicago: University of Chicago Press, 1990), 62ff.

[84]Stephen Arons, *Short Route to Chaos: Conscience, Community, and the Reconstitution of American Schools* (Amherst: University of Massachusetts Press, 1997), 112–21; Joel Spring, *Conflict of Interests: The Politics of American Education* (White Plains, N.Y.: Longman Inc., 1988); Joel Spring, *The American School 1642–1985* (White Plains, N.Y.: Longman Inc., 1986).

[85]C. Vann Woodward, *The Strange Career of Jim Crow,* 2d rev. ed. (London: Oxford University Press, 1966), 108.

[86]Ibid.

[87]Ibid., 130.

cies and actively recruited black workers during the New Deal era. Prior to this period the overwhelming majority of unskilled and semiskilled blacks were nonunionized and were available as lower-paid labor or as strikebreakers."[88]

As official and unofficial discrimination faded, African-Americans returned to the path of economic empowerment they had been forbidden to follow for the better part of a century. Although handicapped by the legacy of second-class citizenship, and by political leaders with little understanding of capitalism and its values, African-Americans in recent years have made dramatic progress in closing the income and social-status gap with Euroamericans.[89]

In 1995, the average African-American two-parent family earned 87 percent as much as the average Euroamerican family, with most of the difference explained by the concentration of African-American households in relatively poorer southern states. The convergence between African-Americans and Euroamericans has been most dramatic among women, where differences have "either disappeared or are on the verge of becoming insignificant."[90] "In 1998, the poverty rate for African-Americans fell to 26.5 percent, the lowest since the government began collecting data on blacks' poverty in 1959."[91]

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[88]Wilson, *The Declining Significance of Race,* 147. For a careful exposé of racism in labor unions see David E. Bernstein, *Only One Place of Redress* (Durham, N.C.: Duke University Press, 2001).

[89]Walter Williams points out that "*even if* there were no collectively organized racial separation of blacks, Puerto Ricans, and Mexican-Americans in housing or employment, these minorities might not be randomly distributed in terms of residences and employment. Nor would they be distributed by some preconceived notion of what is required for justice. The reason is that education is correlated to skill level; skill level is correlated with income; and income is correlated with residence." *The State against Blacks* (New York: McGraw-Hill, 1982), 8.

[90]Patterson, *Consequences of Slavery,* 11.

[91]Cox and Alm, *Why We're Better Off,* 79.

CONCLUSION

Can capitalism be trusted to educate our children? Critics of privatization rely heavily on the nine myths rebutted in this chapter to frighten people into opposing market-based school reform. Allegations that capitalism hurts the poor and caused the Great Depression and that corporations earn obscene profits and tend toward monopoly appear in every book opposing privatization, typically without any effort to document or prove these claims.

The assertions, as Friedrich Hayek wrote, "have long been proved not to have been facts at all." It is only by exposing them and educating the public about capitalism's true history and record that proponents of privatization can hope to win public support for their cause.

RECOMMENDED READING

Bast, Joseph L., Peter J. Hill, and Richard C. Rue. *Eco-Sanity: A Common-Sense Guide to Environmentalism.* Lanham, Md.: Madison Books, 1996.

Cox, W. Michael, and Richard Alm. *Myths of Rich and Poor: Why We're Better Off Than We Think.* New York: Basic Books, 1999.

Friedman, Milton, and Anna Jacobson Schwartz. *A Monetary History of the United States, 1867–1960.* Princeton: Princeton University Press, 1963.

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