

Chapter 6

Capitalism and Morality

Understanding how capitalism works and debunking popular myths about its history leaves a set of important concerns unaddressed. They can be expressed as a single question: Is capitalism moral? In other words, is it right by either traditional or contemporary standards of virtue to rely on competition and self-interest to organize the creation and distribution of wealth? Do the results of market processes comport with our values?

Market values, critics say, “declare that opportunism, cutting corners, taking advantage are not only legitimate but virtuous.”¹ Capitalism is good at meeting many of our wants but has “big blind spots when it comes to others,” such as “family relationships, a sense of community, and protecting the environment.”² It offers individuals a vision of consumption-utopia that is at odds with genuine democracy.³ Some serious

¹Robert Kuttner, *Everything for Sale* (Chicago: University of Chicago Press, 1996), 49.

²Andrew Bard Schmookler, *Fool's Gold: The Fate of Values in a World of Goods* (New York: HarperCollins Publishers, 1993), 15. See also, by the same author, *The Illusion of Choice: How the Market Economy Shapes Our Destiny* (New York: State University of New York Press, 1993). Schmookler, *Fool's Gold*, 17.

³Kenneth Saltman, *Collateral Damage: Corporatizing Public Schools—a Threat to Democracy* (Lanham, Md.: Rowman & Littlefield Publishers, Inc., 2000), 72.

philosophers who understand the importance of economic liberty apparently agree.⁴

Capitalism, by unleashing rapid changes in technology, business organization, and social and economic status, sometimes undermines institutions and systems of beliefs that evolved in quieter and more slow-paced times or cultures. Sometimes this is good, as when capitalism helped end slavery and elevated the status of women. At other times, however, such creative destruction is thought to undermine widely shared values. "One of the structural and inherent moral weaknesses of capitalism as a system is that the creativity, inventiveness, and questioning spirit that make it dynamic have a moral downside and impose a heavy human cost, sometimes even on top executives and investors," writes Michael Novak. "This is not a morally commendable aspect of capitalism."⁵

THE REALITY OF GREED AND AMBITION

Recognizing the challenge capitalism presents to some of our traditional notions of morality does not mean that capitalism is an immoral way to organize an economy. The most common error made by critics of capitalism is failing to recognize that greed or ambition (the desire to gain power or distinction without regard to its effects on others) long predates capitalism. Greed, Max Weber wrote in 1904, "exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials, soldiers, nobles, crusaders, gamblers, and beggars. One may say that it has been common to all sorts and conditions of men at all times and in all countries of the earth, wherever the objective possibility of it is or has been given."⁶

⁴Alan Gewirth, *The Community of Rights* (Chicago: University of Chicago Press, 1996). See also, by the same author, *Reason and Morality* (Chicago: University of Chicago Press, 1978) and *Human Rights: Essays on Justification and Applications* (Chicago: University of Chicago Press, 1982).

⁵Michael Novak, *Business as a Calling: Work and the Examined Life* (New York: The Free Press, 1996), 13.

⁶Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (New York: Charles Scribner's Sons, 1958), 17.

All political and economic systems must cope with greed. Societies that rely on tradition to shape their economies allow some people—usually those with inherited status or willingness to use force against others—to express their greed by imposing their will on others. Sociologist Orlando Patterson calls this sovereign freedom, or the freedom to rule others.⁷ Nietzsche termed it “Will to Power.” Although it may fulfill the material and psychological needs of those who exercise it, this is the freedom that led to the slave societies of ancient Rome, the nationalism of Nazism, and the tribal societies of much of impoverished Africa today.

Socialism, as it was formulated by Karl Marx, Frederick Engels, and the British Fabians, assumed greed to be a social phenomenon conjured by man’s alienation from his work and the rest of society, allegedly caused by the institutions of capitalism. Greed could be extinguished, they thought, if social institutions were organized along collectivist lines, such as those described in the 1962 Program of the Communist Party of the Soviet Union:

Joint planned labor by the members of society, their daily participation in the management of state and public affairs, and the development of communist relations of comradesly cooperation and mutual support, recast the minds of people in a spirit of collectivism, industry, and humanism.

Increased communist consciousness of the people furthers the ideological and political unity of the workers, collective farmers, and intellectuals and promotes their gradual fusion in the single collective of the working people of communist society.⁸

The New Soviet Man, as he was called, never emerged. Repression of the most severe type was justified in the spirit of collectivism, and the result was a criminal society. Socialists are quick to deny that the collapse of the Soviet Union reflects in any way on the tenets of their faith. But the passage of time has revealed that

⁷Orlando Patterson, chap. 5 “The Persian Wars and the Creation of Organic (Sovereign) Freedom” and chap. 21 “Medieval Renditions of the Chord of Freedom” in *Freedom in the Making of Western Culture* (New York: Basic Books, 1991).

⁸“The Program of the Communist Party of the Soviet Union,” in Herbert Ritvo, *The New Soviet Society* (New York: The New Leader, 1962), 203.

the rot that destroyed the footings of the Soviet Union began in the denial of individual liberty, especially the denial of property rights that stands at the core of socialist thinking.⁹

Unlike its alternatives, capitalism does a remarkably good job of constraining greed and ambition. The most basic rule of capitalism—that all exchanges are voluntary—is a formidable check on the pursuit of selfish interest at the expense of others. In a capitalist society, attaining wealth, respect, and status requires appealing to the self-interest of others, specifically by discovering, creating, and delivering goods and services that others are willing to buy. Getting around this requirement—attempting to live at other people's expense by using force or fraud to take things from them or enslave them—violates the laws of property, exchange, and voluntary contract. Assuming government is performing its proper role, those who would break the rules are stopped and punished.

Capitalism goes beyond simply checking greed and ambition by yoking the pursuit of self-interest to the advancement of the public good. Once we learn the use of force is forbidden, we discover that the more effectively we serve others the greater the rewards we receive. As explained in Chapter 4, markets tend to place control over goods and property in the hands of those who value them most and who make decisions that produce the most benefit to others. Competition makes the ban on the use of coercion self-enforcing because others will refuse to trade or contract with us if we violate the rules.¹⁰

CAPITALIST VALUES

In addition to checking greed and ambition in society, capitalism elevates some values over others. According to a recent article in

⁹Brian Crozier, *The Rise and Fall of the Soviet Empire* (Rocklin, Calif.: Prima Publishing, 1999), 512; Francois Furet, *The Passing of an Illusion: The Idea of Communism in the Twentieth Century* (Chicago: University of Chicago Press, 1999), ix, 502.

¹⁰George J. Stigler, "The Intellectual and the Market Place," Occasional Paper #1, UK, Institute for Economic Affairs, 1963.

The Economist, “Whether you agree with its values or not, capitalism is a system positively bulging with moral content.”¹¹

In the eighteenth century, moral philosophers Adam Ferguson, David Hume, Francis Hutcheson, and Adam Smith advocated a social morality that values the consequences of human action as highly as the benevolence of intentions. Honor, chivalry, and courage are all well and good, but actually feeding the hungry, clothing the naked, and giving shelter to the homeless are virtuous, too.

This consequentialist system of ethics has two chief consequences: (1) It makes it possible to distribute rewards for right behavior more accurately than a system that relies on divining people’s intentions and (2) it is neutral toward the moral values held by the various actors. These are great advantages over intentionist ethical systems if peace, prosperity, tolerance of opposing views, and respect for individual rights are among the values shared by most members of the society.

Adam Smith, in a book titled *The Theory of Moral Sentiments*, published in 1759, presented a detailed and, at the time of its publication, highly celebrated outline of a consequentialist ethical system he believed to be consistent with classical and Christian values and the challenges of a capitalist economy.¹² He identifies prudence, justice, and benevolence as the key virtues arising from human tendencies. Those virtues are rewarded in a just society, Smith said, by their consequences, so their practice “is in general so advantageous, and that of vice so contrary to our interest,” that there need be no conflict between doing good and doing well.¹³

Smith did not single out one of these virtues as being the highest or best of the three, and he specifically dismisses “those systems which make virtue consist in prudence.”¹⁴ He

¹¹“The Ethics Gap,” *The Economist*, 2 December 2000, 78.

¹²Adam Smith, *The Theory of Moral Sentiments* (1759; reprint, Indianapolis: Liberty Fund, Inc., 1976).

¹³*Ibid.*, 473.

¹⁴*Ibid.*, 467, 472.

criticized prudence “when directed merely to the care of the health, of the fortune, and of the rank and reputation of the individual,” saying it “commands a certain cold esteem, but seems not entitled to any very ardent love or admiration.” On the other hand, prudence working with justice or benevolence creates a superior prudence that can lead to “the best head joined to the best heart. It is the most perfect wisdom combined with the most perfect virtue.”¹⁵

The Theory of Moral Sentiments remains an effective guide to living a life of virtue without being a burden on those around us. This book differs from most classical discourses on ethics because it recognizes people are actors first, and philosophers second or not at all. Because our actions necessarily affect those around us, a vital function of ethics is to establish rules of conduct that allow people to live together in harmony. This secular, pragmatic, and personal development-oriented approach to ethics, although written before the Industrial Revolution, would seem to be more useful than many contemporary guides to self-improvement and happiness.

Benjamin Franklin provides another pre-Industrial Revolution view of the ethics most appropriate to a capitalist economy. In his *Autobiography*, written in 1771, Franklin provided a list of virtues he had planned to incorporate into a book, never written, that would “have endeavored to convince young persons that no qualities are so likely to make a poor man’s fortune as those of probity and integrity.”¹⁶ Franklin’s list of virtues appears in Figure 6.1.

Franklin’s virtues are so familiar we may suppose them to be just common sense, but these bourgeois values are different from the virtues of aristocrats and peasants who dominated human

¹⁵Ibid., 353–354.

¹⁶*Benjamin Franklin’s Autobiography and Selected Writings*, ed. Larzer Ziff (San Francisco: Rinehart Press, 1969), 87. The book was to have been titled “The Art of Virtue” and possibly subtitled “Nothing so likely to make a man’s fortune as virtue.” For many years, Franklin himself carried a journal consisting of a table for each of the 13 virtues, in which he would “mark, by a little black spot, every fault I found upon examination to have been committed respecting that virtue upon that day,” p. 80.

FIGURE 6.1 Benjamin Franklin's 13 Virtues

1. **Temperance.** Eat not to dullness; drink not to elevation.
2. **Silence.** Speak not but what may benefit others or yourself; avoid trifling conversation.
3. **Order.** Let all your things have their places; let each part of your business have its time.
4. **Resolution.** Resolve to perform what you ought; perform without fail what you resolve.
5. **Frugality.** Make no expense but to do good to others or yourself; i.e., waste nothing.
6. **Industry.** Lose no time; be always employed in something useful; cut off all unnecessary actions.
7. **Sincerity.** Use no hurtful deceit; think innocently and justly; and, if you speak, speak accordingly.
8. **Justice.** Wrong none by doing injuries, or omitting the benefits that are your duty.
9. **Moderation.** Avoid extremes; forbear resenting injuries so much as you think they deserve.
10. **Cleanliness.** Tolerate no uncleanness in body, clothes, or habitation.
11. **Tranquility.** Do not be disturbed at trifles, or at accidents common or unavoidable.
12. **Chastity.** Rarely use venery but for health or offspring, never to dullness, weakness, or the injury of your own or another's peace or reputation.
13. **Humility.** Imitate Jesus and Socrates.

SOURCE: *Benjamin Franklin's Autobiography and Selected Writings*, ed. Larzer Ziff (San Francisco: Rinehart Press, 1969), 78–79.

history before Franklin's time. Economic historian Deirdre McCloskey recently created lists of these contrasting values for a somewhat different purpose, but they illustrate the differences nicely.¹⁷ They appear in Figure 6.2.

¹⁷Deirdre McCloskey, "Bourgeois Virtue," *American Scholar* 63, no. 2 (spring 1994): 179. McCloskey labels the three sets of values "Aristocrat/Patrician," "Peasant/Plebian," and "Bourgeois/Mercantile."

FIGURE 6.2 The Classes and the Virtues

| <i>Aristocrats</i> | <i>Peasants</i> | <i>Capitalists</i> |
|--------------------|------------------|--------------------|
| Pagan | Christian | Secular |
| Achilles | St. Francis | Benjamin Franklin |
| Pride of being | Pride of service | Pride of action |
| Honor | Duty | Integrity |
| Forthrightness | Candor | Honesty |
| Loyalty | Solidarity | Trustworthiness |
| Courage | Fortitude | Enterprise |
| Wit | Jocularly | Humor |
| Courtesy | Reverence | Respect |
| Propriety | Humility | Modesty |
| Magnanimity | Benevolence | Consideration |
| Justice | Fairness | Responsibility |
| Foresight | Wisdom | Prudence |
| Moderation | Frugality | Thrift |
| Love | Charity | Affection |
| Grace | Dignity | Self-possession |
| Subjective | Objective | Conjective |

SOURCE: Based on Deirdre McCloskey, "Bourgeois Virtue," *American Scholar* 63, no. 2 (spring 1994): 179.

Another catalog of capitalist values is the list of the "ten secrets to success" printed in every issue of *Investor's Business Daily*,¹⁸ a newspaper marketed to businesspeople (see Figure 6.3). This list overlaps considerably with McCloskey's list of capitalist virtues and Benjamin Franklin's list, written more than two centuries ago.

Anyone who has spent time with businesspeople will immediately recognize that these lists describe most of them, especially those who are most successful in their business lives. These lists are a far cry from the opportunism, cutting corners, and taking advantage alleged by capitalism's critics.

¹⁸"IBD's 10 Secrets to Success," *Investor's Business Daily*, 29 March 2001.

FIGURE 6.3 *Investor's Business Daily's* "Ten Secrets to Success"

1. **How you think is everything:** Always be positive. Think success, not failure. Beware of a negative environment.
2. **Decide upon your true dreams and goals:** Write down your specific goals and develop a plan to reach them.
3. **Take action:** Goals are nothing without action. Don't be afraid to get started now. Just do it.
4. **Never stop learning:** Go back to school or read books. Get training and acquire skills.
5. **Be persistent and work hard:** Success is a marathon, not a sprint. Never give up.
6. **Learn to analyze details:** Get all the facts, all the input. Learn from your mistakes.
7. **Focus your time and money:** Don't let other people or things distract you.
8. **Don't be afraid to innovate:** Be different. Following the herd is a sure way to mediocrity.
9. **Deal and communicate with people effectively:** No person is an island. Learn to understand and motivate others.
10. **Be honest and dependable; take responsibility:** Otherwise, Numbers 1–9 won't matter.

SOURCE: "IBD's 10 Secrets to Success," *Investor's Business Daily*, 29 March 2001.

CAPITALISM AND JUSTICE

Is capitalism just? *Justice* is conduct in accordance with legislated or otherwise-agreed-upon rules of procedure. Justice in this sense requires that laws be applied equally to all regardless of status, wealth, or circumstances.¹⁹

¹⁹A critical event in the history of justice occurred in 1626–1627, when King Charles I forced Parliament to lend him money. Parliament refused to give the king more than a fraction of his request, made its loan contingent on many things, and tried to revoke the king's right to customs duties, which had been the prerogative of English kings since the fifteenth century. Charles dissolved Parliament and collected the duties anyway, but the terms of negotiation between king and Parliament had changed forever.

In 1628, Charles was presented the Petition of Right, drafted by Sir Edward Coke and approved by the House of Lords. It provided that "no man hereafter [shall] be

Requiring the same laws be applied to all regardless of their situations imposes certain limits on how laws can be written. Just laws must nearly always be negative (telling what cannot be done, rather than what must be done), general (abstract enough to apply to an unknown number of future instances), and permanent (not to be changed unless they conflict with other rules in a system of mutually modifying rules).²⁰ Just conduct, then, is following these rules, and a just society is one that operates according to a system of such rules.

This approach to justice differs considerably from alternative theories based on Marxist notions of class conflict or justice as fairness.²¹ Friedrich Hayek explains the differences, "Justice is thus emphatically not a balancing of particular interests at stake in a concrete case, or even of the interests of determinable classes of persons, nor does it aim at bringing about a particular state of affairs which is regarded as just. It is not concerned with the results that a particular action will in fact bring about. The observation of a rule of just conduct will often have unintended consequences which, if they were deliberately brought about, would be regarded as unjust. And the preservation of a spontaneous order often requires changes which would be unjust if they were determined by human will."²²

Capitalism comports well with this notion of just procedures. Its institutions of private property, markets, and the Rule of Law protect the life and liberty of everyone without regard to their wealth or status. It is no coincidence that, although the idea of

compelled to make or yield any gift, loan, benevolence, tax or such like charge, without common consent by Act of Parliament," and it further forbade confiscation of estates, imprisonment, or execution without due process of law. The king signed the petition and received from Parliament the money he had requested. It was, in the words of J. H. Hexter, "the decisive first step in the direction of modern freedom." See J. H. Hexter, ed., *Parliament and Liberty from the Reign of Elizabeth to the English Civil War* (Stanford: Stanford University Press, 1992); Richard Pipes, *Property and Freedom* (New York: Vintage Books, 2000), 140–42.

²⁰Friedrich Hayek, *Rules and Order*, vol. 1 of *Law, Legislation and Liberty* (Chicago: University of Chicago Press, 1973).

²¹John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971).

²²Friedrich Hayek, *The Mirage of Social Justice*, vol. 2 of *Law, Legislation and Liberty* (Chicago: University of Chicago Press, 1976), 39.

the Rule of Law dates back to Plato and even the pre-Socratics, it was not until the arrival of capitalism in the seventeenth and eighteenth centuries that the theory became practice. The duty to respect the private property of others is a cardinal capitalist rule. Without protection of private property, justice is rare.

Some writers argue that regardless of whether capitalism conforms to our understanding of just procedures, its results conflict with our ideas of what a just distribution of wealth should be. This assertion is made so often that we sometimes do not realize it is counterintuitive. If a process is just, how can its outcomes be otherwise? As Thomas Sowell observes, "To question the 'fairness' or other index of validity of the existing statistics growing out of voluntary economic transactions is to question whether those who spent their own money to buy what they wanted from other people have a right to do so. To say that a shoe shine boy earns 'too little' or a surgeon 'too much' is to say that third parties should have the right to preempt the decisions of those who elect to spend their money on shoe shines or surgery."²³

Each worker weighs the possible trade-offs among wages, effort, investment in training, risk, loss of leisure time, and comfort. No one outside the transaction can say with certainty that these subjective decisions are wrong. Employers make the same sorts of subjective decisions whenever they decide to hire, write a job description, or establish a compensation level. Because few of us sign contracts for lifetime employment, mistakes are readily corrected by resignation, termination, or renegotiation. This means the employment agreements currently in effect tend to be better than any other options available to the parties.

In the final analysis, incomes in market economies are outcomes of voluntary decisions and moral behavior. Inequality simply reflects choices that are made; it is not evidence that injustices occur. As Thomas Sowell explains, "the cold fact is that most income is *not* distributed: It is *earned*. People paying each other for goods and services generate income."²⁴

²³Thomas Sowell, *The Vision of the Anointed* (New York: Basic Books, 1995), 212.

²⁴*Ibid.*, p. 211.

Sowell's comment demonstrates that the idea of social justice or distributional justice is difficult, perhaps even impossible, to reconcile with the idea of procedural justice.²⁵ Nevertheless, thanks to effective advocacy of the term *social justice* by liberal intellectuals, its populist appeal, and the appearance of the term in the literature of mainstream Christian faiths, the notion of social justice is widely discussed if not understood.²⁶

UTILITARIANISM AND INCOME REDISTRIBUTION

Ironically, the same Scottish moral philosophers we have praised for helping to identify the values most appropriate for a capitalist economy are partly to blame for today's confusion over social justice. Their students developed a moral philosophy called utilitarianism, the theory that public policy should be guided by the principle of "the greatest good for the greatest number" rather than justice.²⁷ Inequality, the argument goes,

²⁵See Friedrich Hayek, *Mirage of Social Justice*.

²⁶See the discussions of the Social Gospel movement in Robert William Fogel, *The Fourth Great Awakening and the Future of Egalitarianism* (Chicago: University of Chicago Press, 2000) for an overview. Catholics define social justice procedurally ("Society ensures social justice when it provides the conditions that allow associations or individuals to obtain what is their due, according to their nature and their vocation." [*Catechism of the Catholic Church*, p. 468]) but simultaneously call for efforts to reduce "excessive economic and social disparity between individuals and peoples of the one human race. . ." (p. 470). Protestants stay close to the procedural view: "In this pluralist view, public justice as the central task of the state means enacting and administering public policy in such a way as to safeguard and encourage men in the fulfillment of their manifold offices and callings in society. . ." Rockne McCarthy et al., *Society, State, and Schools: A Case for Structural and Confessional Pluralism* (Grand Rapids, Mich.: William B. Eerdmans Publishing Company, 1981), 164–65.

²⁷The four major figures in developing the utilitarian justification for income redistribution were Frances Hutcheson, Jeremy Bentham, John Stuart Mill, and F. Y. Edgeworth. See Frances Hutcheson, *Inquiry concerning Moral Good and Evil* (Glasgow University, 1772); Jeremy Bentham, *An Introduction to the Principles of Morals and Legislation* (Oxford: Oxford University, 1789); John Stuart Mill, *Utilitarianism* (1863; reprint, Indianapolis: The Bobbs-Merrill Company, 1971); F. Y. Edgeworth, "The Pure Theory of Progressive Taxation," 1897, reprinted in E. S. Phelps, ed., *Economic Justice* (London: Penguin Books, Inc., 1973).

should be tolerated only if it can be shown to benefit those who are least well-off.

The utilitarian case for income redistribution is hardly persuasive. The flaws start with determining who is rich and who is not. Money income accounts for less than half of real consumption, with the balance coming from assets, savings, entitlement programs, public investments in schools, roads, and other public goods, and noncash benefits.²⁸ A true measure of wealth would need to include personal property and assets that may not generate income now, but will in the future or could if the need arose, including investment in education and skills. Moreover, much of what determines success today is spiritual capital, such as self-discipline, the ability to set goals, and a positive attitude—all things that cannot easily be redistributed.²⁹

Happiness, like wealth, is a subjective experience that incorporates more values, goals, and complications than are revealed by the extreme cases often used to urge the redistributionist solution: the hungry poor person versus the profligate rich person. If values are indeed subjective, the best we can do is rank people's utility based on their revealed preferences. Whether the intensity of those revealed preferences can be measured, compiled, or used to make interpersonal comparisons is deeply problematic.³⁰ Ironically, liberal critics of mainstream economics generally find themselves arguing against the possibility of performing such a calculus.

²⁸Fogel, *Fourth Great Awakening*, 203.

Missing from most calculations of wealth are "both the provision of consumption goods by public production and the provision of such goods by public capital investments, including both privately appropriable goods and 'public goods' in the technical sense of the term, available by right of citizenship or residence. . . ." Harry G. Johnson, "Equality and Economic Theory," in *Against Equality: Readings on Economic and Social Policy*, ed. William Letwin (London: The Macmillan Press, 1983), 291.

²⁹"The realization of an individual's potential is not something that can be legislated by the state, nor can it be provided to the weak by the strong. It is something that must develop within each individual." Fogel, *Fourth Great Awakening*, 205.

³⁰See James M. Buchanan, *What Should Economists Do?* (Indianapolis: Liberty Press, 1979); Israel M. Kirzner, *Method, Process, and Austrian Economics: Essays in Honor of Ludwig von Mises* (Lexington, Mass.: D. C. Heath and Co., 1982).

The utilitarian case for income redistribution also relies on a key assumption: that wealthy people value additions to their income less than their poor counterparts value the same additions. Different educations, careers, and earning histories result in different hierarchies of wants and values.³¹ The wants of the wealthy are more expensive than those of the poor, but do additions to their income produce less happiness when attained or less loss of happiness if surrendered? Maybe the wealthy are more likely to make other people happy, in which case the happiness of the rich contributes more to the happiness of the world in general. And because the rich often know the pleasures of both having and not having wealth, they are arguably in the best position to judge which sort of happiness is the most satisfactory.³²

The utilitarian assumption can be tested empirically. If the marginal benefits of working are truly less for the wealthy, they should tend to work fewer hours than the less wealthy. More leisure time, after all, is what we all trade for more income. This issue has been studied, and “for one reason or another men in our society at all levels of the income scale seem to work roughly the same amount.”³³ As reported earlier, most of the small increase in income inequality during the past two decades was attributable to the rich working longer hours while the poor were working fewer hours. This contradicts a central tenet held by the advocates of income redistribution.

A final objection to income redistribution has to do with its workability: How do we keep inequality from coming back? In a capitalist society without legal barriers to occupational choice and trade and without confiscatory levels of taxation, some people, by

³¹W. J. Blum and H. Kalven, *The Uneasy Case for Progressive Taxation* (Chicago: University of Chicago Press, 1953), 59–60.

³²All of these arguments appear in John Stuart Mill’s *Utilitarianism*. For example, “On a question which is the best worth having of two pleasures, or which of two modes of existence is the most grateful to the feelings . . . the judgment of those who are qualified by knowledge of both, or, if they differ, that of the majority among them, must be admitted as final.” Mill, *Utilitarianism*, 20. (In note 27 above.)

³³Blum and Kalven, *Uneasy Case*, 58.

nature or by nurture, will be better than others at producing desirable goods and services. Professional athletes and entertainers come to mind. Preventing the spontaneous recurrent success of such people would require all sorts of unsavory interventions, perhaps even “scrapping both the family as an institution and the freedom of selection of a mate for purposes of procreation. That might be an improvement, but one cannot envision either radicals or conservatives accepting its implications.”³⁴

ONE INSTITUTION AMONG MANY

Blaming capitalism for failing to do what is properly the duty of other institutions is another common error of modern liberals. Robert Kuttner makes this mistake:

Some domains are inherently beyond the reach of the market. They belong to the province of rights, which by definition cannot be alienated or sold. These include the sanctity of one’s person (human beings may not be sold, no matter how great their desperation); the prohibition of commercial exchange of one’s vote or of public office; of free speech, of professions, of honors and awards, of military service, or of products such as illegal drugs and weapons that society has deemed too dangerous for private exchange. . . . Such proscriptions have little to do with “efficiency,” but everything to do with the good society. Breaching them would hardly bring greater prosperity or increased liberty. That the market keeps seeking ways to bring such exchanges into ordinary commerce suggests just how potent is the market impulse, and why it requires necessary constraints.³⁵

Kuttner beats his straw man senseless but completely misses the real issues. Capitalist institutions—private property, markets, and the Rule of Law—organize the production of goods and services in society, not its government or military, or how its members make use of their leisure time. It is preposterous to identify the market with slavery, an institution sustained not by capitalism but by governments.

³⁴Johnson, “Equity and Economic Theory,” 293.

³⁵Robert Kuttner, *Everything for Sale*, 361.

As our discussion of capitalist values and the Rule of Law made clear, capitalism enables those engaged in the necessary activities of production and distribution to conduct themselves with dignity and integrity, to discover their latent talents and find pleasure in providing service to others. But in the end, its reach is bounded by its purpose: “The economic goal of any nation, as of any individual, is to get the greatest results with the least effort,” wrote Henry Hazlitt. “The whole economic progress of mankind has consisted in getting more production with the same labor.”³⁶

The rise of capitalism has not obliterated other institutions: Politics and myriad civic organizations remain as venues for the civic-minded, churches for religious devotion and moral leadership, and universities for the pursuit of learning and truth. Capitalism makes meeting the wants of others the central organizing principle of the economic system, not of every system in society.

You may, for example, believe that dying for the glory of your ideals, your nation, or even your race is the pinnacle of a virtuous life. Capitalism prevents you from violating the private property rights of those around you but otherwise leaves you free to pursue your dream. Other institutions—primarily the political and criminal justice systems—do more than capitalism to rein in or provide outlets for such conduct.

At the opposite extreme, you may believe with Socrates that an ascetic life of philosophic contemplation is the highest achievement. Because philosophers do not appear to produce goods and services that enjoy much popular demand, you may think the rules of capitalism are fixed against you. But look again: The United States produces more bachelors’ degrees per capita than any other nation, except Austria, and more doctors of philosophy today than at any time in history.³⁷ Only a capitalist economy could generate the wealth needed to support 6,600 colleges and universities

³⁶Henry Hazlitt, *Economics in One Lesson*, 3d ed. (1979; reprint, San Francisco: Laissez Faire Books, 1996), 56.

³⁷U.S. Department of Education, Office of Educational Research and Improvement, *Digest of Education Statistics 1999*, Tables 415, 249.

enrolling 15.9 million students each year or the publication of 135,000 new titles and 2.41 billion books in 2001.³⁸

Capitalism thrives in the presence of strong mores, families, and religious beliefs. Jonathan Sacks, chief rabbi of the United Hebrew Congregations of the British Commonwealth, asks “what kind of society gives rise to and is able to sustain a market economy?” The answer, he says,

tends to be a society with a strong respect for certain kinds of tradition. . . . Free institutions, Burke and Hayek seem to say, are best preserved by a certain piety towards the past. Traditions encode the accumulated wisdom of earlier generations in a way that no single generation, however sophisticated, could discover for itself; and it is through learning those traditions and passing them on to our children that we avoid extremely costly mistakes. Paradoxically, it may be just those societies that have strong religious and moral habits that form the best environment for economic development and technological innovation. It may be that those who are most secure in their past are the most confident and energetic in shaping the future.³⁹

One suspects that those who criticize capitalism on moral grounds are mostly upset because capitalism seems to promote what they deem to be lower values: football instead of opera, beer instead of fine wine, pornography instead of fine art, cigarettes instead of fine cigars. But it is not capitalism that has formed the values driving these choices. As George Stigler explained, “The market place responds to the tastes of consumers with the goods and services that are saleable, whether the tastes are elevated or depraved. It is unfair to criticize the market place for fulfilling these desires, when clearly the defects lie in the popular tastes themselves. I consider it a cowardly concession to a false extension of the idea of democracy to make sub rosa attacks on public

³⁸Laura G. Knappet et al., “Enrollment in Postsecondary Institutions, Fall 2000 and Financial Statistics, Fiscal Year 2000,” *Education Statistics Quarterly* 4, no. 4 (winter 2002); Associated Press, “Booksellers Convention Aisles Jammed,” 5 May 2002.

³⁹Jonathan Sacks, “Markets and Morality,” *First Things: A Journal of Religion and Public Life*, August/September 2000.

tastes by denouncing the public who serve them. It is like blaming the waiters in restaurants for obesity.⁴⁰

CAPITALISM AND RELIGION

Some people worry that capitalism competes with or threatens their churches or religious beliefs. Can Catholics, Protestants, and Jews trust the market system to educate their children?

Most historians agree religion has played a major role in the centuries-long battle to limit the authority of the state. Its history and teachings, then, are intertwined with those of capitalism. Alexis de Tocqueville wrote of religion in 1850, “[A]lthough it did not give them the taste for liberty, it singularly facilitates their use thereof.”⁴¹ More recently, Robert William Fogel said that churches “played a leading role in ending aristocratic privilege in the United States and were principal vehicles through which the common people have been drawn into the process of shaping American society.”⁴²

CAPITALISM AND JUDAISM

Capitalism and Judaism are easily reconciled. Statements that place value on the consequences of human action, private property, and doing good by producing goods and services valued by others can be found throughout the Old Testament. Here are just a few examples:⁴³

You shall not steal.

EXODUS 20:15
(Eighth Commandment)

⁴⁰Stigler, “Intellectuals and the Market Place,” 7.

⁴¹Alexis de Tocqueville, *Democracy in America* (1850; reprint, Garden City: Doubleday & Company, Inc., 1969), 292.

⁴²Fogel, *Fourth Great Awakening*, 7.

⁴³New English Bible (Oxford: Oxford University Press, 1971).

You shall not covet your neighbor's house; you shall not covet your neighbor's wife, his slave, his slave-girl, his ox, his ass, or anything that belongs to him.

EXODUS 20:17
(Tenth Commandment)

Do not move your neighbor's boundary stone set up by your predecessors in the inheritance you receive in the land the Lord your God is giving you to possess.

DEUTERONOMY 19:14

What I have seen is this: that it is good and proper for a man to eat and drink and enjoy himself in return for his labours here under the sun, throughout the brief span of life which God has allotted him. Moreover, it is a gift of God that every man to whom he has granted wealth and riches and the power to enjoy them should accept his lot and rejoice in his labour. He will not dwell overmuch upon the passing years; for God fills his time with the joy of heart.

ECCLESIASTES 6:18–20

Judaism's focus on life in this world, rather than the next, arises partly from a belief in the fundamental goodness of the physical world, deduced from the fact of God's having created it. God left the world incomplete, thereby giving man an opportunity and duty to participate in the sacred by helping to finish the task. As God commands Adam in Genesis 1:28, "Be fruitful and multiply, fill the earth and subdue it, rule over the fish in the sea, the birds of heaven, and every living thing that moves upon the earth."

Judaism gives special consideration to equality, individual freedom, and private property rights—all key elements of capitalism—perhaps because slavery and persecution played major roles in Jewish history. Jonathan Sacks presents a compelling argument: "For a ruler to abuse property rights is, for the Hebrew Bible, one of the great corruptions of power. Judaism is the religion of a people born in slavery and longing for redemption; and the great assault of slavery against human dignity is that it deprives me of the ownership of the wealth I create. At the heart of the Hebrew Bible is the God who seeks the free worship of free human beings, and two of the most powerful safeguards of freedom are private

property and economic independence. The ideal society envisaged by the prophets is one in which each person is able to sit 'underneath his own vine and fig tree'.⁴⁴

CAPITALISM AND CHRISTIANITY

Christians whose politics favor government over the private sector can point to the Acts of the Apostles, Books 4 and 5, which describe how in the early Christian church, "not a man of them claimed any of his possessions as his own, but everything was held in common."⁴⁵ The Acts even describe how God struck dead two church members who conspired to conceal some of their wealth from church leaders.⁴⁶ Is this an endorsement of socialism?

These passages from the New Testament describe a communism of consumption but not of production. This approach was typical of religious cults of the time. Every member of the early church was expected to earn a living in the private sector. Jesus never condemned private property or those who owned it. Indeed, how could He while calling charity the highest of the virtues? As a Russian philosopher once observed, Christians exhort their followers to give away their own wealth, whereas socialists call for seizing the wealth of others for redistribution.⁴⁷

The apostle Paul, whom many theologians credit (or charge, depending on their views on organized religion) with transforming Christianity from a Jewish sect into a religion that spread worldwide with unparalleled speed, campaigned tirelessly to attract men with property, particularly freed slaves who had endured the experience of being denied legal possession of property.⁴⁸ Paul's Gospel, delivered in an era when as many as seven out of ten Romans were slaves, is filled with references to freedom: "For freedom, Christ has set us free," "Where the Spirit of

⁴⁴Sacks, *Markets and Morality*.

⁴⁵Acts 4: 32–33.

⁴⁶Acts 5: 1–12.

⁴⁷Attributed to Vladimir Soloviev by Richard Pipes in *Property and Freedom* (New York: Vintage Books, 2000), 17.

⁴⁸See Patterson, *Making of Western Culture*, 293–325, for a contemporary survey and advocacy of this position.

the Lord is, there is freedom,” and we glory in the “liberty of the children of God.”⁴⁹

Members of Paul’s circle of converts and leaders, according to a leading Paulian scholar, were “upwardly mobile; their achieved status is higher than their attributed status.”⁵⁰ Because of its anti-authoritarian message, early Christianity was more at peace with the institutions of the secular world—especially property, trade, and wealth—than were the religions it supplanted.⁵¹ “The early Christian church accepted private property as a fact of life and concentrated on exhorting the faithful to engage in charity to the maximum extent possible. Belongings were considered evil only if selfishly used.”⁵²

Modern Catholicism has stayed close to Paul’s teachings. The *Catechism of the Catholic Church* (1994) says, “Freedom is exercised in relationships between human beings. Every human person, created in the image of God, has the natural right to be recognized as a free and responsible being. All owe to each other this duty of respect. The *right to the exercise of freedom*, especially in moral and religious matters, is an inalienable requirement of the dignity of the human person. This right must be recognized and protected by civil authority within the limits of the common good and public order.”⁵³

Catholic teaching may celebrate individual freedom and human rationality, but it also provides the framework of faith necessary to restrain freedom and achieve justice.⁵⁴ “The exercise of freedom does not imply a right to say or do everything. . . . By deviating from the moral law man violates his own freedom,

⁴⁹The Bible, The Letter of Paul to the Galatians 5:1; The Second Letter of Paul to the Corinthians 2:17; The Letter of Paul to the Romans 8:21.

⁵⁰Patterson, *Making of Western Culture*, 322, quoting Wayne A. Meeks.

⁵¹Wayne A. Meeks, *The Writings of St. Paul* (New York: W.W. Norton & Co., 1972), 435–44.

⁵²Pipes, *Property and Freedom*, 14. (In note 19 above.)

⁵³*Catechism of the Catholic Church* (New Hope, Ky.: Urbi et Orbi Communications, 1994), 431.

⁵⁴*Ibid.*, 430: “Man is rational and therefore like God; he is created with free will and is master over his acts,” quoting St. Irenaeus.

becomes imprisoned within himself, disrupts neighborly fellowship, and rebels against divine truth.”⁵⁵

CAPITALISM AND POSTMODERN VALUES

Religion has been supplanted in some debates over capitalism and morality by a set of ideas called postmodern by intellectuals and New Age by popular commentators and public relations people.⁵⁶ Interest in these values is driven by a growing recognition that most people’s basic wants are being met by earned income, savings, or entitlement programs.

A new set of wants and values, having to do with self-realization and spiritual rather than physical resources, is emerging. Robert William Fogel identifies spiritual resources as key to this new ethical paradigm (see Figure 6.4).⁵⁷

Comparing the values listed under “self-realization” and “occupational success” in the figure with those of Benjamin Franklin, Deirdre McCloskey, and *Investor’s Business Daily* reveals significant overlap. The values listed under “solidarity and diversity” are those traditionally served by institutions other than capitalism; there is no conflict between capitalism and those institutions.

The values listed by Fogel under the label “knowledge” have no counterparts in the lists of business values composed by Franklin or McCloskey. This suggests (as Fogel himself argues) that they are new on the scene and not part of the traditional set of values said to be supported by capitalism. But they match quite well the values identified by *Investor’s Business Daily* (IBD) for people in business. Recall IBD’s fourth point, “Never stop learning: Go back to school or read books. Get training and acquire skills,” and sixth point, “Learn to analyze details: Get all the facts, all the input. Learn from your mistakes.”

The new values identified by Fogel are not only compatible with capitalism but appear to arise from its latest products: The

⁵⁵*Catechism of the Catholic Church*, 432.

⁵⁶Ronald Inglehart, *Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies* (Princeton: Princeton University Press, 1997).

⁵⁷Fogel, *Fourth Great Awakening*, 204–6.

FIGURE 6.4 Post-Modern Values**Self-realization**

- sense of purpose
- vision of opportunity
- sense of the mainstream of life and work

Solidarity and diversity

- strong family ethic
- sense of community
- capacity to engage with diverse groups
- ethic of benevolence

Occupational success

- work ethic
- a sense of discipline
- capacity to focus and concentrate one's efforts
- capacity to resist the lure of hedonism

Knowledge

- capacity for self-education
- thirst for knowledge
- appreciation for quality
- self-esteem

SOURCE: Robert William Fogel, *The Fourth Great Awakening* (Chicago: University of Chicago Press, 2000), 205–7.

dramatic increases in information technology; the shift from manufacturing to services, particularly knowledge-based industries; and the rapid growth in incomes and leisure. Daniel Bell made the connection when he wrote, “In the postindustrial society, the technical elite is the knowledge elite.”⁵⁸

CONCLUSION

Capitalism is a moral, as well as an efficient, solution to the challenge of coordinating the production and distribution of goods in

⁵⁸Daniel Bell, “The Social Framework of the Information Society,” in *The Microelectronics Revolution*, ed. Tom Forester (Cambridge: The MIT Press, 1980), 542.

a free society. Relying on capitalism to provide schooling for our children, therefore, would be likely to produce not only an efficient system but also one that encourages values that fit with traditional religious and modern moral views.

Although social reformers might wish otherwise, greed and self-interest are inherent to the human condition and pose a challenge to every social order. Capitalism has proven to be a superior way to tap these energies and direct them to meeting social needs in peaceful ways. Criticism of capitalism on moral grounds often mistakenly holds its institutions responsible for what is properly the role of other institutions, such as families and churches.

Capitalism does not solve every social problem—no economy could—but it does a superior job solving economic problems in ways that are consistent with moral codes, theories of justice, and even religious beliefs.

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