Common Objections to Capitalism

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A lot of people object to what they call "capitalism," but their objections hold little or no water once they are examined critically. Let's consider some of the most common objections in turn.

Capitalism Exploits the Poor

You have probably heard it said that under capitalism, "the rich get richer while the poor get poorer." This is simply false. It was actually a prediction of classical economics that incomes would accrue primarily to the owners of land and capital. In his 2007 book, A Farewell to Alms, economic historian Gregory Clark points out that if you look at real returns to land (rental rates), they have fluctuated but remain virtually unchanged. The same holds true for capital (interest rates). Real wages for unskilled workers, meanwhile, have exploded.

Sources of mortality have also fallen: infant mortality and maternal mortality are miniscule fractions of what they used to be, and life expectancy has increased radically. It was 24 at the height of the Roman Empire, 30 in Britain at the end of the 15th century, 45 in the United States at the beginning of the 20th century, and it is pushing 80 today.

Joseph Schumpeter once wrote that capitalist progress does not consist of more silk stockings for the queen of England but of reasonable substitutes for them for poor workers in exchange for progressively less labor. Further, he argued that the key beneficiaries of changes in material standards of living would be the poor at the expense of the rich. Cheap electric lighting was an absolute boon for the very poor, while the very rich could have paid flunkies (or forced slaves, in some cases) to stand around holding torches.[1] (#note1)

Capitalism Is Structurally Racist and Sexist

As Walter Block will talk about (video) and as I've written about on Mises.org, this probably isn't the case. Capitalism punishes sexism and racism. Are we playing with a historically stacked deck? I think so. I also believe that there's good evidence that people are inherently tribal, and this manifests itself in racism and sexism.

I'm also willing to believe that hidden biases are part of our psychological makeup. This reinforces rather than undermines the case for capitalism, however, and it undermines rather than reinforces the case for the state.
Suppose we take two societies that are equally racist, equally sexist, and alike in every possible respect. Suppose we give free-market capitalism to one society and antimarket statism to the other. I would expect that over time, we will observe less racism and sexism in the capitalist society.

I also think there is much truth to what Milton Friedman said about politics, commerce, and differences: commerce reduces and harmonizes our differences while politics turns those differences into a source of tension and violence.

"Capitalism punishes sexism and racism."

Unsurprisingly, granting a monopoly on force to local police departments and insulating them from the pressures of the market magnifies embedded racist assumptions. Consider the Henry Louis Gates debacle from this past summer. Professor Gates apparently broke into his own home and was arrested after it was established that he was, in fact, legally in his own home.

I'm willing to believe that Gates wouldn't have been arrested if he had been white, but the essential institutional problem is not the existence of tacit racism or unspoken social assumptions about black and white per se, but the fact that the Cambridge Police Department had a local monopoly on law enforcement. Professor Gates's exit options were limited, and to the degree that he didn't want to actually move out of Cambridge, he didn't have the option of taking his law-enforcement business elsewhere.

**Capitalism Deadens the Soul**

Perhaps you have heard a critic wax rhapsodic about the noble virtues of pastoralism or agrarianism and claim that capitalism delivers the goods but at the price of our aesthetic and social inclinations. Doesn't capitalism deaden our souls?

Deirdre McCloskey says no (http://www.google.com/books?id=-A29fd5b2foc&printsec=frontcover&dq=bourgeois+virtues&ei=zw1vSqqKZIZKgygSHmYTXDg), and some of my research on Wal-Mart with Charles Courtemanche of the University of North Carolina-Greensboro supports McCloskey's essential criticism. She actually takes this a step further and argues that capitalism makes us better people by allowing us to live longer and by giving us the leisure for artistic pursuits.

But doesn't capitalism produce all sorts of nasty, degrading stuff like cigarettes, alcohol, pornography, and violent movies and video games? I'm going to digress for a little bit on how to use economics to inform empirical inquiry. A lot of psychological studies argue that sex offenders are avid users of pornography, and conservative social critics seize on this to argue that pornography causes sex crimes. As we all know, correlation is not causation, and we can tell a theoretically plausible story in which pornography is a substitute for sex crimes rather than a contributor.

A couple of empirical papers show that increased access to pornography leads to reductions in rape and divorce. I discussed this in a Mises Daily article (http://mises.org/story/3080) last year and explored similar themes in an article about violence and video games (http://mises.org/story/3528) recently.

"I find the assumption that aesthetic elites should be able to veto others' voluntary choices morally suspect."

Some of the families of the victims of the 1999 Columbine massacre sued the companies that make and distribute the Doom game series because it was alleged to have influenced the killers. This is an important question, because lives are at stake. If the porn findings are right, then it isn't crazy to think that violent games like Quake and Doom might actually have prevented similar massacres.

**Capitalism Destroys the Environment**

My lecture on environmental and resource economics suggests that capitalist institutions (i.e., secure private property rights) protect rather than destroy the environment, but here I will offer some additional links that
support my point. First, a couple of pictures are worth a thousand words (http://www.cgdev.org/section/initiatives/_archive/zimbabwe/landreform). Undermining private property rights in Zimbabwe led to environmental degradation. And here's Craig J. Richardson with more (http://www.cato.org/pubs/journal/cj25n3/cj25n3-12.pdf) on Zimbabwe's experience with "land reform."

**Capitalism Is Inherently Unstable and Prone to Recessions**

As the Austrian/Hayekian theory of the business cycle illustrates, this isn't actually the case. On the Mises Institute's YouTube channel (http://www.youtube.com/user/misesmedia) and Media page (http://mises.org/media.aspx), you can find lectures by Robert Murphy, Douglas French, and Roger Garrison explaining why this objection doesn't hold water. To make a long story short, growth will be sustainable if prices (interest rates in particular) aren't distorted by government intervention.

**Capitalism Is Prone to Resource Monopoly**

It isn't, but let's assume that it is. If this were true, it is hardly clear that the solution is to replace a monopoly that is responsive to and constrained by market forces with a different monopoly that isn't and that has guns to boot.

**Be That as It May, Some Things Are "Just Too Important" to Be Left to the Market."**

Consider health care, which is the topic du jour and the foremost example of something that is "too important to be left to the market." First, health care is defined and revealed by the market process, and second, we can't know how much is "enough" without prices, profits, and losses. As always, claims like this are exercises in robust political economy: even if we grant the ethical assumption that health care occupies a different moral category than other goods and services, it isn't clear that a government monopoly will do better than a free market.

"Capitalist progress does not consist of more silk stockings for the queen of England but of reasonable substitutes for them for poor workers in exchange for progressively less labor."

My recent experience as a participant in an extended moral economy (as a husband and a father) has brought this into high relief. I'm very sensitive to the limitations of the way health care is delivered in the United States.

Consider the discrepancy between reality and the logic of regulation. You can pay a price of zero for information from a friend or relative, and you are free to treat your children using folk wisdom and home remedies. However, you aren't allowed to pay a positive price for health care provided by someone who has some expertise but not expertise of the quantity and quality demanded by regulatory and licensing bodies.

Here again I borrow from Walter Block: it's like a regulation saying you can only buy Armani suits or luxury cars. I don't see why we shouldn't be allowed to have health care Hondas.

Medical licensing also illustrates what F. A. Hayek called "The Fatal Conceit," albeit here in a morbidly vivid manner. Markets will produce their own regulatory institutions in the form of private certification agencies like the Underwriters' Laboratory and the Good Housekeeping Seal of Approval. Once again, what constitutes "good" medical practice will emerge from the market process.

Current medical licensing suffers from the presumption that there are objectively correct and universal categories that constitute "health care"; that these can be known and understood by panels of experts; and that these experts can wisely exercise judgment on behalf of everyone else.
Well, Capitalism Is Just Ugly

According to some, capitalism is neither beautiful nor noble, because it rewards people not for transcendent values, but for materialism. When I discuss my Wal-Mart research (http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=508839) with people, I often get a response to the effect of, "Have you ever been to a Wal-Mart?" followed by a recounting of the ugly people, cheap products, and mundane baubles one can find at America's largest retailer.

There are a lot of good reasons not to shop at Wal-Mart — it isn't particularly pleasant if you're in a hurry or if you really value excellent service, for example. But the fact that Wal-Mart doesn't serve your particular preferences about the kind of shopping environment you want doesn't make the company "evil" in any meaningful sense. Efficiency aside, I find the assumption that aesthetic elites should be able to veto others' voluntary choices morally suspect.

Conclusion

The system of voluntary exchange and experimentation based on secure private-property rights — what we loosely call "capitalism" — expands rather than restricts our material and nonmaterial opportunities. Substituting elite power for voluntary exchange invites all sorts of epistemological problems and moral disasters. For these reasons, capitalism deserves to be defended.