

CAPITALISM WORKS

(and “Capitolism” Doesn’t)

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THE LESSONS OF HISTORY

I wasn't always involved in public policy. In fact, years before entering the world of politics and government, I worked with a class of people much different from the politicians and bureaucrats I routinely engage today. This class of people was a class—literally—of students at the middle school where I taught American history.

I loved teaching about America's founding, all the way back to the colonists who sailed to these shores in the 1600s seeking religious, political, and economic liberty. Our great country's history is chock-full of important lessons for those willing to learn.

In my classroom, the early colonists' failures, rather than successes, usually offered the best lessons. One such story, in particular, illustrated the moral and practical superiority of freedom over despotism—or “capitalism” over “Capitolism”: the story of Jamestown.

Established in 1607 as the first permanent settlement in America, Jamestown is one of history's great ironies in that this little colony, which became the seed of America's unparalleled experiment in human freedom, began in a state of what can only be called pure communism.

In Jamestown's early days, how much or how little any individual member of the colony produced made no difference. Instead, the fruits of everyone's labors went into a common warehouse, controlled by a central authority that doled out the goods to the colonists in an egalitarian manner. As a result, a colonist who worked very hard to hunt or grow the most food possible might end up with less to eat than another colonist who “needed” the food more.

Obvious to most adults—at least hopefully—is the problem with this arrangement. But my 13- and 14-year-old students required a concrete example to grasp the negative implications of the communist dictum,

"From each according to his ability, to each according to his need"—coined by Karl Marx more than two hundred years after Jamestown.

To demonstrate why the communist ideal ultimately led to starvation among Jamestown's colonists, I informed my students I would begin grading tests as if I were Karl Marx. This meant a student who earned 90 out of 100 points would have to surrender points to a "needy" classmate who scored only 50 points. Take 20 points from one, give them to the other, and, voila!, both get 70 points: a passing grade for everyone! After all, why should we allow one student to enjoy an "A" and another suffer an "F" when both could receive a "C"? Isn't that "fair"?

Naturally, while high-scoring students were not pleased with this new grading system, low-scoring students were ecstatic. But their ecstasy was short-lived once they realized this was only an exercise.

When asked what they thought would happen if tests really were graded in this egalitarian manner, the high-scoring students immediately understood their incentive to score well would diminish. They argued, "Why should I study hard for a test if I know I'm going to be forced to give some of my points to someone who didn't earn them?" They also understood that as apathy led them to score lower on their tests, the average "passing grade" of 70 points for everyone would also begin to decline—until, eventually, everyone failed.

Such was the dynamic that led, in part, to starvation in Jamestown. As the common-store system destroyed each colonist's incentive to produce even the necessities for survival, shortages resulted. In less than a year, only 38 of the 104 original settlers remained alive. To be sure, other factors contributed, but Jamestown's communism was a big one.

These dire circumstances led Captain John Smith to rethink the colony's communistic system of property confiscation and redistribution. Henceforth, he said, Jamestown would abide by the

principle, “Those who do not work shall not eat.” His announcement gripped people’s attention—particularly those who had been living off others’ labor. From that point, Jamestown reversed its fortunes, and the rest, as they say, is history.

THE MORAL SUPERIORITY OF THE FREE MARKET

What makes free-market capitalism so desirable?

First, it works! No other economic system in the history of humanity has done more to feed, clothe, shelter, heal, and care for the poor, elderly, and less fortunate than free-market capitalism. History is replete with examples of its success.

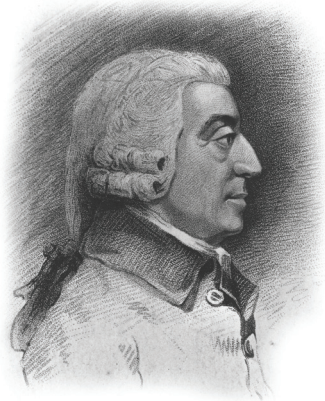
Second, it is morally right, or just. Specifically, a free-market economy is not simply the best but also the only means of social organization that fully respects every individual’s inherent and inalienable rights to life, liberty, and property.

This moral argument is the strongest case for a free-market economy. We should embrace free-market capitalism not merely because of its track record of efficiency or its success in generating wealth and promoting human well-being, but rather because free-market capitalism is consistent with certain fundamental moral principles of life itself.

These are principles that respect and uphold the sacred dignity and individuality of each person, rather than try to manipulate people and their possessions as mere objects in some ideological crusade to “build a better society.”

What makes free-market capitalism morally just? That’s easy. Unlike collectivistic systems that rely on coercion and force, free markets rely on persuasion and voluntary exchange. Capitalism depends on the ability of individuals or groups to convince other individuals and groups to enter into mutually beneficial relationships.

In practice, this means no one can profit at another’s expense—at least not in the long run. Instead, persuasion and voluntary exchange require that both parties to a transaction mutually benefit, or else the transaction won’t take place. Put more simply, if I want to help myself—or profit—I must first help you by offering a good or service you’re voluntarily willing to pay for.



Adam Smith

In this way, noted Adam Smith, a founding father of modern-day free-market economics, society as a whole benefits when individuals pursue their own self-interests. Smith said these benefits are not necessarily seen but are the result of the “Invisible Hand” of free people pursuing their personal goals and objectives.

Capitalism’s critics view Smith’s argument as contradictory. “See, capitalism is based on selfishness,” they say, “and society cannot thrive if its key economic tenet is selfishness!”

They are right, but this criticism fails to recognize the distinction between self-interest and selfishness. Think about it. What single, highly unselfish quality is absolutely necessary before entrepreneurs can succeed—or before any business can earn a profit?

Simple: identifying needs or desires of others.

Entrepreneurs must first think of others, and then offer them the needed or desired products or services at a price consumers are willing to pay.

Not only this, but these same entrepreneurs must then continue serving those customers, who can choose from other businesses to meet their needs.

Far from concentrating on their own needs and wants, successful entrepreneurs and businesses must focus on others’ needs and wants. A failure to serve others well will mean financial ruin—if not immediate, then eventual.

Ultimately, all economic activity in a free-market economy can be summarized with a simple question: “How have you served your fellow man?”

Sure, fraud exists in a free-market economy—just as in any type of economy. But because free-market economic transactions rely on the voluntary consent of the individuals involved, frauds can’t and don’t last long. Through “word-of-mouth” communication, dishonest entrepreneurs and businesses quickly gain a bad reputation, resulting in potential customers shunning them.

Only a free-market economy can provide such real and relatively immediate punishments for those who fail to meet the needs of others. Conversely, economies directed by centralized authorities hide fraud much better than free-market economies and never get to the root of the problem.

PEACEFUL VS. VIOLENT EXCHANGE

Capitalism’s superiority to collectivism also demonstrates itself in the mechanism of exchange: peaceful rather than violent.

A peaceful means of exchange says, “If you do something good for

me, I’ll do something good for you.” For example, when I place an order at a fast food joint, I am essentially telling the restaurant that if it does something good for me (gives me a cheeseburger), then I’ll do something good for it (give it my \$4.50).

Capitalism is characterized by this type of peaceful exchange—people voluntarily entering into relationships (e.g., exchanging money for cheeseburgers) because they believe they will benefit from the exchange.

But not all exchange is peaceful. Violent exchange says, “Unless you do something good for me, I’ll do something bad to you.” This, of course, is the operating rule of burglars and bandits. It is also the underlying principle of “Capitolism,” including communism, socialism, fascism, and welfare statism.

Before examining these types of government-directed economic systems more closely, let’s explore how a free-market economy works its “magic”—to the great benefit of society.

TWO KEY PRINCIPLES OF A FREE-MARKET ECONOMY

Free-market capitalism has a variety of unique characteristics, but two key principles that undergird a free-market economy are private property and economic freedom.

PRIVATE PROPERTY

Private property is essential to the success of a free-market economy. Without it, free-market capitalism cannot exist, because an individual

is motivated to work harder only because he can retain the fruits of his labor—his property.

Think back to the classroom example of grading tests like Karl Marx. The incentive to perform well on tests is the fact that you “own” your achievements. What happens if you no longer own the fruits of your labor—if they can be taken from you by force? Your incentive to perform is diminished.

Our right to private property animates us. The opportunity to “own” something drives us to work hard, produce a good or provide a service, invent, save, invest, and spend. Ultimately, our right to private property gives us the incentive to better our lives by serving our fellow man.

ECONOMIC FREEDOM

Economic freedom, not surprisingly, is also essential to free-market capitalism.

What is economic freedom? For entrepreneurs and businesses, it includes the freedom to take risks and the right to enter any markets they choose and run their own operations as successfully as their abilities, their resources, and providence allow them.

For consumers, it means the freedom to buy the products they prefer and to reject those they do not. And for employees, it’s the freedom to pick the employment they find most suitable, as long as the employer deems them qualified and the employee is willing to accept the wages offered.

In other words, the free-market economy relies on free individuals operating in a free society. It does not depend on politicians, government agencies, boards, commissions, and bureaucracies deciding who will produce, what will be produced, how much will be produced, and who will receive what’s produced.

Government's role, then, is limited to defending individual freedom, protecting private property, and preventing fraud, violence, force, and theft.

Thomas Jefferson, in his first inaugural address in 1801, said as much:

...a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government....

Respect for private property and economic freedom provides citizens the opportunity to produce new and better products, improve services, increase production, create more jobs, increase wages, and ultimately provide a higher standard of living for everyone. Without these critical components of capitalism, we will never be able fully to exercise our right to the "pursuit of happiness."

THE "NEED" FOR GOVERNMENT INTERVENTION

We know how and why free-market capitalism is not only morally just but also practically superior. So what about the alternatives?

There's certainly no shortage of people who believe government should play an ever-growing role in our lives and the economy. They argue government is in the best position to plan industrial, financial, and commercial activity. Unless government assumes the role of economic boss, they say, too many people will be ill-clothed, underfed, uncared for, and badly housed.

At the root of this argument, though, is the belief that if left free, Americans cannot or will not provide for themselves or their neighbors in need. They won't voluntarily help those who suffer, and the poor and downtrodden will go hungry and be deprived of medical care or an education.

Of course, no evidence exists to support this notion, and much evidence contradicts it, such as our country's long tradition of charitable giving absent government force.

Many advocates of intervention nevertheless argue for some form of a "mixed economy," such as a welfare state that redistributes part of what's earned by some people to others who haven't earned it.

The contention is that free-market capitalism is inherently unfair and immoral, so we need a little socialism mixed in with our market system, combining the "best elements" of each. Instead of taking the full 20 points from the student who earned them and giving them to someone who didn't, we take only 1, 2, 3, or 10 points and redistribute them to those in "need."

This mixed economy approach of trying to make people "more equal," however, is based on the tested yet unproven theory that government can successfully intervene in the economy and produce good results while still falling short of imposing economic tyranny.

In reality, once it embarks down the road of intervention, government increasingly controls, regulates, and coerces business enterprise and individual endeavor, decreasing the incentive to produce and re-directing what is produced in often irrational ways.

Invariably coinciding with this is the onset of crony capitalism, as we see in America, whereby politically connected Big Businesses work through Big Government to distort the free-market economy, cornering markets and profits to the detriment of everyone else.

Instead of allowing free people to enter into voluntary exchanges with one another, government violently intervenes in the marketplace. Political activity replaces consumer demand and producer supply as the way of deciding who gets what and how much. And freedom is incrementally lost.

Increasingly, this is what’s happening in America.

But why?

THE ALLURE OF SOCIALISM: THE “VISIBLE HAND” OF GOVERNMENT

Most Americans agree that free-market capitalism, rather than “Capitolism,” is a preferred economic system. They’ve seen firsthand the fruits of capitalism—inexpensive goods and services that make life easier—as well as the failures of government-directed economies, such as high costs, shortages of goods and services, and a lack of individual freedom.

Yet without fail, what tends to happen whenever the economy takes a downturn or unemployment rates rise? People begin demanding that the government intervene. They expect the president or governor to “do something!” Although most people understand that “Capitolism” leads to lower productivity and, thus, lower living standards, it is appealing because of its primary advantage over capitalism; namely, visibility.

To the extent “Capitolism” works, people are able to see exactly how its “success” is achieved. Under a “Capitolistic” economic system, every

step from the input into production to the final product is controlled by a government planner—the “Visible Hand” at work.

In other words, you can point to the supposedly rational process of exactly how, for example, a loaf of bread gets from the wheat field to a family’s dining room table. Or, when a politician stands at a ribbon-cutting ceremony for a company that has just been awarded taxpayer subsidies, he can visibly point to what he did to “create jobs.”

By contrast, free-market capitalism relies on Adam Smith’s “Invisible Hand,” under which people, pursuing their own self-interests, inadvertently promote society’s well-being. Few if any can understand or explain exactly how the free market is able to provide consumers with any particular good—but it does!

Yet, many prefer the comfort of the “Visible Hand,” at the cost of increasingly embracing “Capitolism.”

We want to believe the president or governor can actually create jobs or successfully manage the economy. And we are willing to overlook the fact that politicians are only taking money out of the pockets of producers and redistributing it to politically powerful and connected individuals and groups. Meanwhile, many elected government officials are only too happy to encourage this trend. After all, this type of political manipulation of the economy helps them win re-election to yet another term in office.

AMERICA’S CREEP TOWARD SOCIALISM

Government’s intervention into our lives and the economy has been so gradual that it is often difficult to see just how much of our freedom we’ve already lost.

As a matter of fact, we no longer enjoy a true free-market economy. Through the forcible redistribution of wealth and a multitude of government laws, regulations, and interventions, America has become a mixed-economy welfare state—an unstable and unhealthy combination of diminishing capitalism and expanding socialism.

And the real-life implications are astounding. Today, the average Pennsylvania worker must labor from January 1 to mid-April—more than a third of the year!—just to pay local, state, and federal tax bills.

And at last count, state and local government in Pennsylvania forcibly takes and spends more than \$120 billion per year, or more than \$10,000 for every man, woman, and child in the commonwealth.

As government continues to expand and eat up more of the fruits of our labor, the incentive to work will gradually diminish—or, at least, more people will seek to circumvent the politically driven process of punishing producers and rewarding those who enrich themselves through manipulating the political process.

The result? Instead of exercising more energy, ingenuity, hard work, and responsibility to achieve success, people will increasingly rely on the government to care for them. Individuals will—indeed, already increasingly do—reject responsibility for their own lives as government seduces them with offers of “free” medical care, education, housing, and on and on.

Far from encouraging freedom, this destructive influence of welfare-

state economics leads to the attitude of “let the government do it.” And what the government “provides,” the government controls. Indeed, we see this already in many areas of our lives that were once successfully taken care of through private initiative and voluntary associations.

With freedom already tottering, socialism and its logically inevitable end, tyranny, are just around the corner.

Is this the future we want?

Clearly, the decision for Americans is not just an academic one between economic systems. Rather, it is the choice of whether our rights to life, liberty, and property remain inalienable or are granted—and may be revoked at any time, for any reason—by government.

The decision between free-market capitalism and “Capitolism” will determine if men and women can keep the fruits of their labor and do with them as they think best. It will determine if property will be legally confiscated by politicians and used for politically purposed ends. Ultimately, it will determine whether we live in freedom or tyranny.

HOW ABOUT JUST A LITTLE BIT OF SOCIALISM?

Why can't we have just a little bit of socialism—without going too far—to improve capitalism's perceived imperfections? This argument is akin to saying just a little bit of cancer is alright, too. The reality is that the body—human or politic—cannot survive long with either. History proves that the growth of the welfare state eventually evolves into complete socialism and, finally, dictatorship.

We are already traveling this path, but we can reverse this trend. All hope is not lost. Indeed, as I consider the challenges we face in rolling back the advances of unconstitutional and unlimited government in 21st-century America, I am reminded of William Lloyd Garrison's labors to abolish chattel slavery in the 19th century.

Although Garrison never led or managed much more than a small band of followers, his steadfast determination and passionate commitment to the cause of freedom made him a catalyst for significant change. In 35 years as editor of the weekly anti-slavery newspaper *The Liberator*, Garrison never missed a week of publishing—delivering more than 1,800 issues in all.

In *The Liberator's* first issue, on January 1, 1831, Garrison's editorial established the course that he maintained for more than three decades. He wrote:

I am aware, that many object to the severity of my language; but is there not cause for severity? I will be as harsh as truth, and as uncompromising as justice. On this subject, I do not wish to think, or speak, or write, with moderation. No! no! Tell a man whose house is on fire, to give a moderate alarm; tell him to moderately rescue his wife from the hands of the ravisher; tell the mother to gradually extricate her babe from the fire into which it has fallen;—but urge me not to use moderation in a cause like the present. I am in earnest—I will not equivocate—I will not excuse—I will not retreat a single inch—and I will be heard.

We don't have to lose the free-market economy that has made our nation the freest, most prosperous, most generous country in the history of the world. But restoring America's founding principles of free-market capitalism will require your help. Like Garrison, we must not equivocate, we cannot excuse, and we must be heard!

As the great patriot Samuel Adams urged, *"It does not take a majority to prevail ... but rather an irate, tireless minority, keen on setting brushfires*

of freedom in the minds of men." Adams' words remind us that we can prevail—despite apparently negative odds—if we are committed to spreading the ideas of freedom.

But if we concede the battle, Adams' sobering warning will be our lot:

If ye love wealth greater than liberty, the tranquility of servitude greater than the animating contest for freedom, go home from us in peace. We seek not your counsel, nor your arms. Crouch down and lick the hand that feeds you. May your chains set lightly upon you; and may posterity forget that ye were our countrymen.



A CALL TO ARMS

If this sounds like a call to arms, it is!

We are once again engaged in a struggle for freedom that desperately needs more volunteer soldiers. Fortunately for us, this war is being fought with spoken and written words in Congress and in the General Assembly of Pennsylvania, instead of with muskets and bayonets on the battlefield.

Yet daily, politicians enact economic policies that continue our long, slow slide into “Capitolism.” I hope you—as heirs to the blessings conferred upon these United States—will join me in actively working to preserve and restore the free-market capitalism that has provided us a quality of life unmatched in the history of the world.

This day, let’s once again choose capitalism over “Capitolism.” And let’s join the ranks of that “irate, tireless minority” that is “keen on setting brushfires of freedom in the minds of men.”

We can prevail! Nay, we must prevail for the good future of mankind!

Mr. Brouillette is indebted to the many political philosophers, writers, and economists from whom he borrowed many ideas, concepts, and even verbiage for this presentation. Regrettably, the spoken word does not allow for the adequate citation and recognition of each and every author who influenced this publication.

*For more information on the Foundation or additional copies of *Capitalism Works (and “Capitolism” Doesn’t)*, please visit CommonwealthFoundation.org.*



Capitalism Works (and “Capitolism” Doesn’t)

by Matthew J. Brouillette, president and CEO of the Commonwealth Foundation, is based upon various presentations he has given to thousands of high school students and adults across the Commonwealth of Pennsylvania.