



AN AUDACIOUS PROMISE: THE MORAL CASE FOR CAPITALISM

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“The market will take care of everything,” they tell us. . . . But here’s the problem: it doesn’t work. It has never worked. It didn’t work when it was tried in the decade before the Great Depression. It’s not what led to the incredible postwar booms of the ’50s and ’60s. And it didn’t work when we tried it during the last decade. I mean, understand, it’s not as if we haven’t tried this theory.

—President Barack Obama, Osawatomie, Kansas, December 6, 2011

Milton Friedman once said that every time capitalism has been tried, it has succeeded; whereas every time socialism has been tried, it has failed. Yet President Obama has oddly claimed that we’ve tried free-market capitalism, and it “has never worked.” This is rather remarkable. Since 1800, the world’s population has increased sixfold; yet despite this enormous increase, real income per person has increased approximately 16-fold. That is a truly amazing achievement. In America, the increase is even more dramatic: in 1800, the total population in America was 5.3 million, life expectancy was 39, and the real gross domestic product per capita was \$1,343 (in 2010 dollars); in 2011, our population was 308 million, our life expectancy was 78, and our GDP per capita was \$48,800. Thus even while the population increased 58-fold, our life expectancy doubled, and our GDP per capita increased almost 36-fold. Such growth is unprecedented in the history of humankind. Considering that worldwide per-capita real income for the previous 99.9 percent of human existence averaged consistently around \$1 per day, that is extraordinary.

What explains it? It would seem that it is due principally to the complex of institutions usually included under the term “capitalism,” since the main thing that changed between 200 years ago and the previous 100,000 years of human history was the introduction and embrace of so-called

capitalist institutions—particularly, private property and markets. One central promise of capitalism has been that it will lead to increasing material prosperity. It seems fair to say that this promise, at least, has been fulfilled beyond anyone’s wildest imagination. Yet people remain suspicious of capitalism—and more than just suspicious: as the Occupy Wall Street movement is only the latest to have shown, we seem ready to indict capitalism for many of our social problems. Why?

A widespread consensus is that capitalism might be necessary to deliver the goods but fails to meet moral muster. By contrast, socialism, while perhaps not practical, is morally superior—if only we could live up to its ideals. Two main charges are typically marshaled against capitalism: it generates inequality by allowing some to become wealthier than others; and it threatens social solidarity by allowing individuals some priority over their communities. Other objections include: it encourages selfishness or greed; it “atomizes” individuals or “alienates” (Marx’s term) people from one another; it exploits natural resources or despoils nature; it impoverishes third-world countries; and it dehumanizes people because the continual search for profit reduces everything, including human beings, to odious dollar-and-cent calculations.

The list of charges against capitalism is long. But some of the charges are not as strong as might be supposed. Take community. Capitalism gives us incentives to trade and associate with people outside our local community, even complete strangers, not on the basis of our love or care for them but out of our own—and their—self-interest. So capitalism enables people to escape the strictures of their local communities. But is that bad? Capitalism creates opportunities for people to trade, exchange, partner, associate, collaborate, cooperate, and share with—as well as learn from—people not only from next door but from around the world—even people who speak different languages, wear different clothing, eat different foods, and worship different gods. The social characteristics that in other times and under different institutions would lead to conflict—even violent, bloody conflict—become, under capitalism, irrelevant—and thus no longer cause for discord. Capitalism encourages people to see those outside their communities not as threats but as opportunities. It gives us an incentive

to look beyond our narrow parochialisms and form associations that would otherwise not be possible.

Capitalism therefore does not lead to *no* community but rather to differently configured ones. Consider this remarkable passage from Adam Smith’s 1776 *The Wealth of Nations*:

The woollen coat, for example, which covers the day labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carriers, besides, must have been employed in transporting the materials from some of those workmen to others who often live in a very distant part of the country! How much commerce and navigation in particular, how many ship-builders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the different drugs made use of by the dyer, which often come from the remotest corners of the world! What a variety of labour too is necessary in order to produce the tools of the meanest of those workmen!... [I]f we examine, I say, all these things, and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and cooperation of many thousands, the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated.

This is a celebration for Smith. It represents not the total independence demanded by the eighteenth-century French philosopher Jean-Jacques Rousseau, who envisioned a kind of solitary orangutan-like existence as the ideal for humans; but neither is it the atomism that some critics of capitalism claim. It contemplates a set of social institutions that allows us to transcend the confines of our small-group instincts by engaging in far-flung cooperation. If we were instead to restrict cooperation only to those exchanges that could be based on personal caring and bonds, the loss of gains from forsaken trade would sharply reduce our standard of living—causing us

to regress steadily to the *status quo ante* of human existence—namely, \$1 per day. By contrast, markets allow us to “serve” one another even when we do not love one another—even when we do not know of one another’s existence. That implies an extensive, deep, and pervasive interdependence—which is a real, if different kind of, community.

What about inequality? Capitalism does allow—and perhaps even requires—inequality. Because people’s talents, skills, values, desires, and preferences vary and because of sheer luck, some people will be able to generate more wealth in a free-enterprise system than others will; inequality will result. But it is not clear that we should worry about that.

Consider first that the voluntary exchanges that take place in the free-enterprise system are positive-sum, not zero-sum—meaning not that one person benefits only at another’s expense but rather that all parties to the transaction benefit. If you and I agree that I will complete a task for you for \$100, that means that I value the \$100 more than the labor and other forsaken opportunities that it costs me, and you value the completed task more than the \$100 that it costs you. That we voluntarily strike this deal means that we both benefit, each according to his respective schedule of values. What capitalism proposes is to expand the frontiers of possibility for such mutually beneficial transactions so that more and more people can work together in more and more ways. This increasing cooperation means increasing benefit in new, unpredictable, and yes, unequal but nevertheless substantial, ways.

Even if we do not all get rich at the same rate, we all still get richer. To see the importance of this point, ask yourself: If you could solve only one social ill—either inequality or poverty—which would it be? Or suppose that the only way to address poverty would be to allow inequality: Would you allow it? This seems a no-brainer: poverty is a far larger factor in human misery than is inequality. If we could have steadily fewer people suffering from grinding poverty, is that not something to wish for, even if it comes with inequality? This appears to be the position in which we find ourselves. The only way we have discovered to raise people out of poverty is the institutions of capitalism, and those institutions allow inequality.

Keeping people in poverty seems too high a price to pay in the service of equality. One is tempted to say that only a person who has never experienced poverty could think differently.

Consider that allowing these inequalities actually reflects a respect for individual dignity. In a famous passage in *The Wealth of Nations*, Smith writes: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their own advantages.” Some read that and hear selfishness. But Smith saw in the dynamics of such exchanges not selfishness but respect. Perhaps that sounds counterintuitive, but consider the assumptions in such negotiations. Each person is saying to the other: “I understand that your life is yours to lead, and rather than trying to trump your schedule of values with mine, I will respect and recognize your schedule. Thus I do not second-guess or question you; instead, I propose that we meet each other as peers and cooperate.” That is a surprisingly profound way to respect others. Consider, by contrast, the assumptions when we want to prevent others from mutually voluntary cooperation: “We do not believe that you are competent to lead your own life, so we shall do it for you.” That may be a proper way to treat children or the mentally infirm, but it is a demeaning and disgraceful way to treat adults—and unacceptable for a free people.

Smith wrote: “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.”

There is a profound naturalness to, as Smith called it, the “obvious and simple system of natural liberty” that he contemplated. Once we get a “tolerable administration of justice” and are protected from international and domestic aggression, and once a scant few public services (roads, canals, elementary educa-

tion) are put into place, stand back: the “invisible hand”—motivated by people’s desire to better their own condition and guided by the freedom to exploit their local knowledge as well as the responsibility of facing the consequences of their decisions—will generate prosperity, leading, according to Smith, to “general plenty” and “universal opulence.” That was an audacious promise, and the fact that it seems to have been fulfilled in those places in the world that have enjoyed Smithian institutions over the last two centuries is a remarkable vindication of Smith’s model—not to mention a tremendous benefit for those fortunate enough to live in those places.

Capitalism’s success at its stated goals has been so enormous and unprecedented that we might easily think that that is all that can be said on its behalf. Rescuing hundreds of millions of people from grinding poverty is, however, nothing to sneeze at—and nothing to take for granted. The rest of human history has shown us just how nasty, poor, and brutish the default for human life is; even the twentieth century—that age of democratic enlightenment—has vividly demonstrated how quickly civilization can turn to barbarism. Peace, the rule of law, and steadily rising standards of living are the exception, not the rule, and the institutions that uphold them are fragile and require constant maintenance and nurturing.

But capitalism is part of a larger set of social institutions that has another justification for itself than increasing material prosperity, as important as that is. And that is its presumption of the dignity and preciousness of each individual and the respect that that demands. Capitalism assumes that each of us is a free moral agent, capable of leading his own life, of holding his head up, not begging leave or permission before he acts, not subject to correction from his superiors: a citizen, not a subject. Capitalism does not suppose that we are infallible; on the contrary, it is because no one is infallible that capitalism denies any of us absolute authority over others’ lives. It assumes only that as free moral agents, each of us has authority over himself and that each of us is sovereign over his own life.

Capitalism, moreover, does not suppose that we are atoms, isolated from and unconnected to others. As

Adam Smith wrote: “In civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes”; and “man has almost constant occasion for the help of his brethren.” Yet Smith also wrote that man’s “whole life is scarce sufficient to gain the friendship of a few persons.” We cannot depend, therefore, on personal bonds of love, care, or friendship and still expect to live above subsistence levels.

What the free-enterprise system—Smith’s “obvious and simple system of natural liberty”—proposes, then, is the adoption of those political and economic institutions that manage to combine not one but two great moral imperatives: allowing people the opportunity to rise from the impoverished existence that seems to be humanity’s miserable, if equal, *status quo*; and respecting people as the irreplaceable and precious individuals that they are. That is a sublime conjunction of material prosperity and moral agency, the likes of which no other system of political economy has ever contemplated, let alone achieved.

Capitalism is not perfect. But no system created by human beings is, or ever will be, perfect. The most we can hope for is continuing gradual improvement. To this end, we must honestly examine the prospects of the available systems of political economy. The benefits of the free-enterprise society are enormous and unprecedented; they have meant the difference between life and death for hundreds of millions of people and have afforded a dignity to populations that are otherwise forgotten. We should wish to extend these benefits rather than to curtail them.

It would be all too easy for us, among the wealthiest people who have ever lived, in one of the richest places on earth, to disdain the institutions that have enabled us to escape the strictures of poverty and disrespect that have plagued humanity for the vast majority of its existence. Our crime today, however, would lie not in our inequalities but rather in our refusal to uphold the institutions that give humanity the only hope it has ever known of rising out of its natural state of destitution. The great and precious blessings of freedom and prosperity that we Americans have enjoyed, and that some, but not enough, others around the world have also experienced, deserve nothing less.

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