

How Moral is Capitalism?

Author: Rich Karlgaard

Date: February 12, 2007

Advanced Placement US History

A writer calling himself "Adam Smith"--you'll see the irony in a moment--nuked me recently on my Forbes.com daily blog. He wrote: "You are too much of a materialistic person to understand the purpose of life. [You big mouths at magazines] find followers who want nothing but money, which they think buys happiness. It's not too late for you to drop your crap and look for the meaning of life--it is certainly not in making money. I wish you luck."

Sorry, Mr. Smith. I do not consider moneygrubbing the purpose of life. Never have. The use of God's gifts comes closer for me.

Still, moneygrubbing--a.k.a. the search for profit--has its purpose. Money (profit) is a tool. It is capital. Without capital there is no capitalism. Innovation starves. Prosperity weakens. Societies stagnate. God-given gifts wither. This is especially true for humanity's wonderfully zany outliers: artists, inventors, entrepreneurs. They need capitalism more than anyone.

Money is good, therefore, because capitalism is good. It delivers the goods, literally, and better--broadly and individually--than does any other system. Hugo Chavez would argue that point, but he's nuts.

Can we go even further and say that capitalism is good because it is moral? Following that logic, can we say: The purer the form of capitalism, the more moral it is? Is capitalism *perfectly* moral--enough to sustain itself over many generations?

Yes, say Ayn Rand's followers. But most of us would not go that far. We think a capitalism that lacks outside moral influences and pressures, restraints and safety nets would, sooner or later, fail.

Bill Ziff, a successful magazine capitalist who died last year, spoke for most of us: "[Capitalism] is not in itself sufficient to create values. It depends on what human and religious values we, ourselves, bring to our affairs. Insofar as those values fail, we would all descend toward a lawless, inhumane, cutthroat society that will no longer harbor our civilization."

Good Works or Redistribution?

Conservatives and liberals agree on little these days. But most agree on this: Capitalism works, but it is insufficiently moral. Conservatives--allow me to paint them with a broad brush--believe capitalism works best when it is spun with golden moral threads, when it weaves in those old values learned in church, charities, service clubs and the like.

Liberals are more skeptical. They know capitalism will produce losers as well as winners. They feel the winners must be forced into helping the losers. Forced help hurts everyone, say conservatives. Redistribution discourages winners from producing and losers from trying. It leaves everyone bitter.

Such is the national debate we find ourselves engaged in as the Democrats take power in the Senate and House. The minimum wage is a form of redistribution. It forces employers to pay workers more than their productivity merits, puny as those paychecks may be. Higher payroll taxes are also redistribution. Who believes higher payroll taxes will show up as higher monthly payments for the employee's retirement?

Restrictions on free trade are yet another form of redistribution, although you may not think of them as such. Tariffs imposed by the U.S. are usually countered by tariffs from other countries. That's what trade wars are all about--retaliation. Trade wars force American companies that are winners in the global economy--the **IBMs**, **FedExes** and **Citigroups**--to give up some of their winnings so that struggling domestic tool and textile manufacturers can stay in business. Trade protectionism asks California to subsidize Ohio and South Carolina.

Generally, Democrats favor forced redistribution more than Republicans do. Republicans--again, in general--would prefer to fix capitalism's shortcomings through good works and giving. This forces Republicans to higher standards of conduct, by the way. Bad people, in power, can redistribute as easily as good people. Only good people can inspire us to good works and giving.

Have Republicans succeeded in holding themselves to this higher standard? Hah! The top two Republicans in the House, John Boehner (Ohio) and Roy Blunt (Mo.), can't summon enough moral courage to say no to "earmarks"--a sneaky form of redistribution. Demo-crats are proud of redistribution. They have no need to be sneaky about it. Democrats will always play the redistribution game better.

Paging Adam Smith

What did Adam Smith--not my blogger critic but the real one--say about capitalism and morality?

The great Scotsman seemed to say two contradictory things. In *The Wealth of Nations* (1776) he wrote these famous words about self-interest: "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 advantages." This sounds like selfishness: Greed is good.

But Smith never believed that. In his earlier book, *The Theory of Moral Sentiments* (1759), Smith defined self-interest not as selfishness or greed but as a psychological need to win favor within one's society. Smith revised *The Theory of Moral Sentiments* after he wrote *The Wealth of Nations*. He did not change his belief that moral sentiments and self-interest are the same thing.

Let's not forget our Adam Smith. When we do, capitalism loses its moral authority, and the redistributionists win.