

12

The Economic Order

*We have always known that heedless self-interest was bad morals; we know now that it is bad economics.**

Like a hypochondriac who is so absorbed in the processes of his own digestion that he goes to the grave before he has begun to live, industrialized communities neglect the very objects for which it is worthwhile to acquire riches in their feverish preoccupation with the means by which riches can be acquired.†

THE MORAL CONTEXT

Economic Activity Is Moral Activity

It is sometimes assumed that the economic enterprises of a society run by their own inherent laws not subject to human interference. A view has developed in many circles that the laws of supply and demand, of incentive and production, of allocation and resources, are almost scientific in their rigor and unalterability. From this it has been concluded that political and moral decisions should not affect the running of the economic machine.

Although it may be true that the choices people make about what to buy and what to produce can be reasonably predicted, at least in a general way, it is false to conclude that the way in which a society produces goods, makes them available, and provides the resources for consuming them is value free. Economic systems are value laden and carry within them a whole set of values about the nature of persons and their relationship with each other. It is also true that political decisions necessarily have an effect on the functioning of the economy (a political decision to tax the purchase

*Franklin Delano Roosevelt in his Second Inaugural Address, January 20, 1937

†H. H. Tawney, *The Acquisitive Society* (London: Bell, 1926), p. 241

of gasoline will affect, to some degree, the amount of gasoline people will voluntarily buy). Therefore, value judgments are always being made implicitly about economic realities. The moral task is to make those judgments explicitly. The key to making them intelligently will depend on how we evaluate the effects of economic practices on issues of justice, equity, and the welfare of persons within the society.

The word “goods,” used to refer to what is produced and what is consumed, ironically indicates the moral dimension of economics. For goods are what are good for people: they directly affect the well-being of persons. The moral problems that emerge as we try to sort out the justification for economic systems in terms of their effect on the well-being of people are clearly related to the goals of government and to the political decisions that help achieve those goals. Government, politics, and economics make up an integrated whole with respect to the general social order within which we live and, therefore, raise similar moral problems for us.

Who Controls the Productive Process?

In a system of production, distribution, and consumption, it is inevitable that decisions must be made about who will produce, what will be produced, to whom and by what means it will be distributed, and who will consume it. These decisions necessarily involve moral choice.

At a basic level, economic decisions affect the well-being and welfare of everyone in the social order. The fundamental moral questions, therefore, revolve around an analysis and evaluation of these decisions. Some economic systems will stress the importance of individual free choice in the production and consumption of goods, accepting as a “necessary evil” the inequities of enterprise, ingenuity, and consequent wealth. Other economic systems will stress the importance of equality for all in terms of access to basic goods, accepting as a “necessary evil” the curtailment of individual freedom of choice. The fact that every economic system must make some tradeoffs in the balance of values reveals that no system can ever fully embody all the values it claims to strive for. There are many things that the “best laid plans” cannot anticipate or control. In the following we will deal primarily with the *ideals* espoused by architects of alternative economic orders. It is important to remember that in practice these ideals will always be less than perfectly realized. Moral choice, therefore, will be made not solely in the light of a vision of values in the abstract, but also in the shadow of the actual world, always less than perfect, in which those values are practiced with a greater or lesser degree of faithfulness.

Each economic system has its own moral foundation or, at least, moral implications. Benjamin Ward tried to show that

economics is thoroughly permeated by ideology in its structure, in the ways it asks questions and answers them, and in the ways policy implications are drawn from it.¹

It will be helpful, therefore, to examine in outline the main elements of the major economic philosophies in the world today to uncover their moral foundations and implications. Common areas of concern will be: the understanding of property and the ownership of resources and production; the rights and nature of labor; the determination of what to do with profit; the freedom of individuals to produce and consume what they choose; the understanding of competition and incentive; the nature of obligations to those who are poor and/or economically unproductive; the exercise of power in the political arena based on economic power; the distribution of economic wealth as based on need or on economic contribution; the understanding of the fulfilled life in relation to economic production and consumption.

ECONOMIC PHILOSOPHIES—I

Laissez-Faire or Free Market Economics

At one extreme in the spectrum of economic philosophies is a position that intersects at many points with the political philosophy known as laissez-faire. The economic side of this philosophy stresses the importance of individual initiative and enterprise in producing whatever goods seem desirable to the producer and offering them on the free market for whatever price they will command. This means granting as much freedom as possible to the individual to determine his or her own interests, either in buying or selling. Buttressed by the famous “invisible hand” first propounded by the moralist-economist Adam Smith, this position claims that as individuals pursue their own self-interests, the good of the whole will be enhanced.

Every individual intends only his own gain, and he is in this, as in so many other cases, led by an invisible hand to promote an end which was no part of his intention.²

A basic assumption of the laissez-faire or capitalist doctrine is that human beings are essentially motivated by self-interest. Any attempt to

¹Benjamin Ward, *The Ideal Worlds of Economics: Liberal, Radical and Conservative Economic World Views* (New York: Basic Books, 1979), p. viii.

²Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (New York: Modern Library, 1937), p. 423.

regulate that self-interest from the outside (by governmental interference) will result in the curtailment of the initiative and ambition that produces the best efforts from all the members of the social order. In America this ideology has been called the American Way of Life or the private enterprise system and has been identified with what is great and virtuous about the way Americans do business. As the National Association of Manufacturers booklet *The American Individual Enterprise System* put it in 1946:

We became a nation of free men . . . free to pursue our happiness without interference from the state, with the greatest liberty of individual action ever known to man. Individuals, conscious of unbounded opportunity, inflamed by the love of achievement, inspired by the hope of profit, ambitious of the comfort, power and influence that wealth brings, turned with . . . vigor to producing and offering goods and services in freely competitive markets. The individual wanted little from the government beyond police protection while he confidently worked out his own destiny. . . . Our "private enterprise system" and our American form of government are inseparable and there can be no compromise between a free economy and a governmentally dictated economy without endangering our political as well as our economic freedom.³

Without a governmentally dictated economy it might be supposed that economic decisions and their effects would be chaotic. Supporters of laissez-faire capitalism claim, however, that the market regulates itself in and through the free decisions of individual producers and consumers. If people are free to offer their products at whatever price they choose, then it obviously is in their best interest to charge a lower price than others who are offering the same thing. It also serves their interests to offer only what others are interested in buying. Thus, nothing will be produced that is not desired, and what is produced will be required, by the influence of the consumer, to be of good quality and low price. If an item is poorly made and overpriced, consumers will seek alternatives to it. This will encourage some producers to bring onto the market a better made, less expensive substitute. Thus both producer and consumer come out ahead and the market is seen to discipline or regulate itself. As Irving Kristol has said, "mere commercial activity—what Robert Nozick so nicely calls commercial transactions between consenting adults—. . . should be the dynamic force which defines and shapes the civilization."⁴

³The Economic Principles Commission of the National Association of Manufacturers, *The American Individual Enterprise System*. vol. II (New York, McGraw-Hill Co., Inc., 1946), pp. 1018–1021.

⁴Irving Kristol, "The Disaffection From Capitalism," in *Capitalism and Socialism: A Theological Inquiry*, ed. Michael Novak (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979,) p. 16.

Incentive Rewarded

In a capitalist scheme, it is argued, there is every incentive for initiative and ambition since, “inflamed by the love of achievement,” enterprising entrepreneurs will be creative in coming up with new ways of offering new things to meet new and particular demands by free consumers. The end result, as has been put by Ludwig von Mises, is that

free enterprise has radically changed the fate of man. . . . It has, in an unprecedented way, raised the standard of living of the average man in those nations that did not too severely impede the acquisitive spirit of enterprising individuals.⁵

The Profit Motive

At the heart of this capitalist view of human beings is the conviction that they are driven by individual self-interest. As long as room is provided for ambition and incentive, competing self-interests will produce the best for all. The economic implication of this view is the notion of the profit motive. People will always seek to make a profit from whatever deals or enterprises they engage in. A profit is simply what is left over after all the expenses of producing and marketing the object to be sold have been met. The capitalist position assumes that everyone wants to make a profit, although it admits that not everyone will want to use the profit made in the same way. Lest this be seen as making a virtue out of selfishness, it is immediately pointed out by defenders of capitalism that the search for profit will induce the producer to serve the needs of those to whom he wishes to sell his product. Thus, self-interest is seen to work for the benefit of all. As von Mises puts it:

[B]y the instrumentality of the profit-and-loss system, the most eminent members of society are prompted to serve to the best of their abilities the well-being of the masses of less gifted people. What pays under capitalism is satisfying the common man, the customer. The more people you satisfy, the better for you.⁶

Competition

Closely tied to the profit motive is the principle of competition. To achieve more profit, producers must compete with their rivals in the race to offer cheaper, more attractive goods. Without the constant threat of competi-

⁵Ludwig von Mises, *The Ultimate Foundation of Economic Science: An Essay on Method* (Princeton: Van Nostrand, 1962), p. 122.

⁶von Mises, p. 128.

tion, producers will become complacent, their goods will become shoddy, and there will be no incentive to keep prices low. Success in the marketplace may not, in and of itself, be the goal of the entrepreneur, but merely the means to the real end: status in the community or power to carry out social goals or to be of service to the larger society. In addition, competition is a stimulus to moral sensitivity. Edward Norman claims that

the competitive deployment of personal resources and talents is a tremendous stimulus to moral self-consciousness; it encourages, rather than discourages, the individual in the cultivation of a practical scheme of responsibility for his actions, and imposes, as a condition of maintaining living standards, a sense of moral duty.⁷

Private Property

In addition to ambition, profit, and competition, capitalism is linked to the defense of private property. To own personally what one has been able to purchase with the money earned by one's own efforts is a basic right within this system. Any threat aimed at confiscating or limiting the right to private property is regarded as a threat to the rewards that make the system operative. In addition, without the use of private property the entrepreneur is not free to use profits in whatever way he or she deems best. To make the system work, the entrepreneur must have the freedom to use his or her property (whether in the form of money or tangible goods such as land) in whatever way will contribute to his or her own enhancement. This might mean reinvesting the money in upgrading the business, opening a new business, buying out rivals, or in pursuit of luxury items for oneself. Unless entrepreneurs know that their property is their own to do with as they want, their ambition and incentive will be thwarted and the system will start to unravel.

It is often pointed out in defense of capitalism that persons who use their money or property to make more profit are only being rewarded for being willing to risk their money. The system works in large part because capitalists are willing to risk their "capital" in new ventures whose success is not guaranteed at the outset since all success in the market depends on the uncoerced choices of the consumer. Thus, an automobile manufacturer who risks capital in the production of a new kind of car should be rewarded for that risk, should the venture prove successful, by the profits the investment produces. It is always possible, in this arrangement, to lose what is risked in investment. Thus, knowledge, creativity, and skill are encouraged.

⁷Edward R. Norman, "Denigration of Capitalism: Current Education and the Moral Subversion of Capitalist Society," in *The Denigration of Capitalism: Six Points of View*, ed. Michael Novak (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979), p. 9.

Social Obligations

But what, it might be asked, does this system do for those who are unable to offer anything on the market and therefore are not able to receive its rewards? First, it has been argued, capitalism on the whole creates wealthier countries than do alternative economic systems. Thus, while there may be relative poverty in a capitalist country—between those aged, infirm, and incompetent, on the one hand, and the successful, rich, and enterprising, on the other—there is greater wealth for this country's "poor" relative to the extreme poverty in other countries. In addition, capitalism generally works best when it is producing for mass consumption. As Joseph Schumpeter has pointed out, the rich have always been able to afford whatever they wanted: it is the poor who are best served by the production of cheap goods, mass produced.

Electric lighting is not a great boon to anyone who has money enough to buy a sufficient number of candles. . . . It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars, and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man. . . . The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort . . . the capitalist process . . . progressively raises the standard of life of the masses.⁸

It is also claimed by the capitalists that it is they who provide the employment that gives the great bulk of workers the money needed to purchase the goods they desire. If the capitalists were unwilling to risk capital in investment in industry or production, there would be no jobs. Therefore, the more the capitalists are encouraged to pursue profit, the more the workers benefit since capitalists depend on the workers' labor to maximize their own income. Workers expend their "capital"—their labor—and are rewarded for this investment with profit—wages. Since the workers have every right to choose for whom they will work, their fundamental freedom and rights are also protected under capitalism.

Finally, it is argued, the obligation to meet the needs of those unable to contribute to the productive process is one that rests on the moral conscience of individuals. As Milton Friedman puts it:

The capitalist system must leave the ethical problem for the individual to wrestle with. The "really" important ethical problems are those that face an individual in a free society—what he should do with his freedom.⁹

⁸J. A. Schumpeter, *Capitalism, Socialism and Democracy*, 3rd ed. (New York: Harper, 1950, 1962), p. 64.

⁹Milton Friedman, *Capitalism and Freedom* (Chicago: Univ. of Chicago Press, 1962), p. 12.

For the state to take from the rich to meet the needs of the poor is to condone stealing since it is unfair to take people's property without their consent. People should pay for the services they demand. Unless the demands of justice are met voluntarily by the conscientious decisions of those able to meet them, morality is not served. In extreme cases, such as those in which persons are victims of circumstances that render them unable to compete in the marketplace, it might be necessary to give them enough money to reenter it. This basic minimum income, achieved through a negative income tax, would replace all forms of social welfare because it would bring everyone back into the free-for-all of the market and would put moral responsibility for their own welfare back where it belongs—on their own initiative and power of choice.

Versions of Capitalism

There are versions of laissez-faire capitalism that accept many of its basic moral assumptions but seek to modify them so as to ameliorate more directly the condition of the poor and disadvantaged. A basic version of the model accepts the premise that capitalism is very useful as a means of production. However, it wishes to supply ends to the economic system from outside itself. Sometimes known as social market capitalism or welfare capitalism, this model wishes the workers, the wage earners, to share more directly and equitably in the achievements of the system. This "mixed economy" is one in which the state controls and plans, in various ways, the activities of the private business sector. The state may also become the owner and producer of some industries while permitting private business people to play a role in the management of other industries.

The state should set the rules within which the capitalist works and should take the primary responsibility for meeting public needs: education, police protection, medical care, social security, and standards for safe products. In other words, the state should be prepared to interfere with the workings of the market to ensure a greater degree of security for that part of the society unable to fend successfully for itself in the marketplace and to provide services required by all persons equally, regardless of their ability to pay for it in full out of their earnings. A political decision might be made, for example to limit the monopoly of one company over all the oil to be developed in a country. Such a decision would be made on behalf of the public to ensure that oil is available at low enough prices so that no one is forced to go without. Or a government might choose to nationalize an industry to control, on behalf of the whole society, both the amount of goods produced by that industry and their price.

Thus, social market capitalism accepts the workings of the capitalist

system but modifies their effects on those members of the society who would be seriously disadvantaged or impoverished if they had to rely entirely on their own ability to compete without aid in the marketplace. Much of the moral debate over economic issues in this country revolves around the virtues of social market capitalism as a modifier of strict laissez-faire capitalism. The issue, essentially, is the degree to which governmental interference with the market is warranted in particular cases.

ECONOMIC PHILOSOPHIES—II

A Socialist Critique of Capitalism

In the economic spectrum at the end opposite capitalism are the various forms of socialism. Just as they propose a radically different understanding of economic arrangements, so they build on a very different understanding of human nature and its fulfillment. Although socialist economics has not had much appeal in the United States it is a moral alternative that requires serious attention by Americans because of its attractiveness to large numbers of people around the world.

Historically, the theory of socialism emerged as a reaction to what some regarded as the moral failure of capitalism. Socialism therefore depends on capitalism in a way that capitalism does not depend on socialism. Socialism began as a criticism of capitalism. It cannot be understood except through its criticism. We must examine that criticism, therefore, before looking at the alternative socialism proposes to capitalism.

REFLECTIONS ON FREEDOM IN A MARKET ECONOMY

The passing of market-economy can become the beginning of an era of unprecedented freedom. . . . Yet we find the path blocked by a moral obstacle. Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essentials of freedom. . . . The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers are decried as a camouflage of slavery. . . . With the liberal the idea of freedom thus degenerates into a mere advocacy of free enterprise—which is today reduced to a fiction by the hard reality of giant trusts and princely

monopolies. . . . This leaves no alternative but either to remain faithful to an illusionary idea of freedom and deny the reality of society, or to accept that reality and reject the idea of freedom. . . . The discarding of the market utopia brings us face to face with the reality of society. It is the dividing line between liberalism on the one hand, fascism and socialism on the other. The difference between these two is not primarily economic. It is moral and religious. Even where they profess identical economics, they are not only different but are, indeed, embodiments of opposite principles. And the ultimate on which they separate is again freedom . . . is freedom an empty word, a temptation, designed to ruin man and his works, or can man reassert his freedom in the face of that knowledge and strive for its fulfillment in society without lapsing into moral illusionism?

Karl Polanyi, *The Great Transformation* (Boston: Beacon, 1957), pp. 258–259.

Karl Polanyi (1886–1964) taught in the fields of politics and economics. He was particularly interested in the social implications of economic theory and practice. He taught at Oxford, the University of London, and Bennington College. He is the author of The Essence of Fascism.

This indictment normally has two dimensions: one lists the undesirable consequences of living under capitalism and the other criticizes the view of human nature capitalism endorses and encourages.

At the heart of the practical rejection of capitalism is the claim that it is unjust in its distribution of the goods of a social order. Critics point out that the laissez-faire model assumes that every member of the market economy has something to sell that is as potentially valuable as whatever can be sold or marketed by every other member. If all enter the market with the same chips or bargaining power, then equity might be served. But in fact we know that not everyone does enter at the same level. If capital (property, money, etc.) is necessary to move forward, then obviously those with inherited wealth start far ahead of those born into poverty, malnutrition, and ignorance. There is no mechanism intrinsic to capitalist values, as such, to remedy the inequities of the starting line.

Distribution of Wealth

The effect of these inequities is dramatically revealed in the picture of wealth distribution in the United States today. Our distribution is roughly the same as India's.¹⁰ Two-thirds of all manufacturing assets are controlled by 200 giant corporations. In other words, the control of the capitalist system is concentrated in the hands of very few persons and corporations. Less than 2 percent of the population owns 80 percent of all corporate stock. Only 74,000 persons own at least 40 percent of all the corporate stock in the country. To put it in terms of income, 20 percent of American families receives nearly 46 percent of America's income, while the 20 percent at the other end of the spectrum receives 14 times less or a little over 3 percent. One percent of American families receives more than twice the income of the 20 percent of families who occupy the bottom rung of the income ladder.

Concentration of Power

This concentration of economic power in the hands of few people obviously makes them able to exert extraordinary and disproportionate influence on the institutions of government that determine policy for the country as a whole. In the 90th Congress, for example, there were ninety-seven bankers, twelve of whom sat on the House Banking Commission, which sets rules for the banking industry. It would be hard to imagine a clearer case of potential conflict of interest. Access to political power by those who profit most from capitalism results in an array of laws permitting what are commonly known as tax loopholes for the wealthy. In 1967 twenty-one millionaires paid no federal taxes at all. In 1966 \$250 million was paid in farm subsidies to well-off farmers comprising less than .02 percent of the population in Texas while 28 percent of the people living in that state below the official poverty line received only \$7 million in all forms of food assistance.

Most Americans, in other words, are not capitalists: most do not own stocks, most do not invest in their own business. Thus, relatively few persons control the capitalist economic system, while the majority of persons depend on the capitalists' decisions for employment, housing, availability of goods, and revenues to pay for education, medical care, etc.

¹⁰These and other claims about capitalism are taken from Eugene Toland, Thomas Fenton, and Lawrence McCulloch, "Project for Justice and Peace" in *Struggling with the System*, ed. Robert L. DeWitt (Ambler, Pa.: Witness Magazine, 1976).

This means that real power and the enactment of values comes from within

tiny self-perpetuating oligarchies. These in turn are drawn from and judged by the group opinion of a small fragment of America—its business and financial community. . . . Thus the only real control which guides or limits their economic and social action is the real, though undefined and tacit, philosophy of the men who compose them.¹¹

Limits on Freedom

The majority of people in a capitalist system find themselves bound by the restrictions of what is supposed to be a system that rewards freedom. For example, intelligent use of freedom presupposes a thorough knowledge of what one wants to purchase, including its alternatives. It also presupposes that one genuinely has the freedom not to buy what is offered on the market (thus forcing down the price). And it presupposes genuine competition among producers of the same item. None of these presuppositions is fully operative for most consumers today. Most people are not free to choose a house or an apartment to live in; most are not free to choose to seek medical care—neither need can be satisfied without having to purchase, out of whatever resources one can secure, these items from sellers who offer them at whatever price the market will bear. Thus, many people are shut out of owning a home or renting a decent apartment because they don't have the bargaining chips to secure them.

In other service areas, there is little or no competition among providers. A buyer has little choice about who will provide energy in the home or telephone service or transportation. Even in industries in which there are different companies offering a similar product (such as the automobile industry), it is difficult to find genuine competition due to corporate decisions not to seriously undercut corporate rivals.

In addition, most consumers simply do not have the thorough knowledge necessary to distinguish between the services of one company and another. This is particularly true in the field of medicine in which the patient is not expected to pass judgment on the doctor's advice but is expected to pay for it on the market model of consumption.

Labor as a Commodity

Beyond the question of the degree of power the consumer has to exercise assumed freedom in the marketplace, critics point to the problem of the

¹¹Adolf A. Berle, *The 20th Century Capitalist Revolution* (New York: Harcourt, 1954), p. 180

employee, the worker in the capitalist system. For most people, the only bargaining chip is the labor they can provide. Thus, they must offer to the employer their personal capital: their ability to work. Their labor becomes a commodity to be sold on the open market. This puts the laborer in a unique position. The capitalist can risk his monetary capital without endangering his person: the laborer has only his person to risk and thus is bought or invested in as an object.

The Marxist critique of capitalism is particularly sensitive to this issue. It argues that the worker *becomes* an object in capitalism because himself is all he has to offer. Thus, he becomes alienated, that is, separated in a profound way from himself (he comes to see himself only as an object to be used in the productive process), from other persons (they become his rivals since they are competing with him to be bought for labor), and from what he does with his labor (he comes to see his labor not as a creative act arising out of his freedom but as drudgery, as meaningless repetition of meaningless work). At the same time, the worker cannot opt out of this cycle of alienation because if he does not allow himself to be bought, he will find himself unemployed. And in capitalism, without employment there is no income and without income there are no bargaining chips at all. In a system that makes virtually all important services and commodities (including those having to do with medical care, housing, clothing, transportation, and even some forms of education) dependent on the purchasing power of the consumer, the threat of unemployment is the threat of being cut off from any decent standard of living.

COMMUNITY AND CONSUMPTION IN CONFLICT

Poverty is a social and political status involving vulnerability to political and even police intervention in one's life and the lack of any effective power to assert one's wishes and needs. Poverty is bad mainly because it is a condition of powerlessness, not because, in America at least, it involves stark material want. When poverty is chosen, when it is a voluntary status, undertaken for some moral or religious end, it is often a state of joy rather than of suffering, as in the case of Thoreau at Walden, the Peace Corps worker, or the inhabitant of a rural commune. . . . There is every reason to believe that a life of material austerity, of pride and pleasure in the quality of workmanship rather than in the amount consumed, a life lived in a warm and supportive community, would be far healthier for our society, ecologically and sociologically, than our present dominant pattern of ever-

accelerating consumption. But our economy could not survive a mass turn to voluntary poverty . . . and our economy exerts all of its enormous power to prevent such a turn. I submit that of the several critical features of our present social situation that leads me to call it America's third time of trial this is the most decisive.

Robert N. Bellah, *The Broken Covenant* (New York: Seabury, © 1975), p. 135–136. Reprinted by permission.

Robert Bellah (b. 1927) is Ford Professor of Sociology and Comparative Studies at the University of California, Berkeley. He has explored the relation between religion and society in a number of books, including Beyond Belief and Religion and Progress in Modern Asia. He is also the author of "Civil Religion in America."

Racism and Sexism

Because of the need for human labor, capitalism encourages what some have called a "reserve army of unemployed" from whose ranks capitalists can always threaten to draw low paid workers if present workers do not contain their demands for higher pay or better working conditions. There is no incentive for the employer to pay workers more than necessary to get them to accept work. This has led some companies to locate in poorer countries where wages are lower. For the same reason, it is to the employer's advantage to exploit racial and gender differences. As women are forced to return to the marketplace to help supplement their husbands' income, they are forced into accepting lower paying jobs to have jobs at all. The same is true for minority groups who are normally hit hardest by any cutback in employment, thus suffering time and again the "last hired, first fired" syndrome. This puts black people in a peculiarly vulnerable position within capitalism. They

pay higher rents for inferior housing, higher prices in ghetto stores, higher insurance premiums, higher interest rates in banks and lending companies, travel longer distances at greater expense to their jobs, suffer from inferior garbage collection and less access to public recreational facilities, and are assessed at higher property tax rates when they own housing. Employers, by not discouraging white male resentment of blacks and women entering the labor force, enjoy the benefits of not having this force organized and united in their bargaining position.¹²

¹²From Michael Reich, "The Economics of Racism," in DeWitt, p. 90.

Stimulation Through Advertising

Excessive criticisms of capitalism point to its use of massive advertising to lure consumers into buying items the social or personal value of which is never questioned by the system. Thousands of items are sold every year simply because a producer has found a way, through clever advertising, to stimulate interest in them. Do people really *need* enormous gas guzzling cars, homes with more rooms than can be lived in, home video cassettes, elaborate cemeteries for dogs, and so on? It has been claimed that Americans spend more money every year on liquor and tobacco than on education. Capitalism has no incentive to sell only those things that are socially useful since its basic incentive is to sell what *can* be sold at profit. Thus, capitalism employs thousands of people and agencies simply to stimulate interest in nonessential items. The charge leveled at capitalism in this regard is that it is inherently wasteful and inefficient. It does not provide work for everyone who wants to work,

much of its men and materials is devoted to the production of the most extravagant luxuries at the same time that enough of the necessities of life for all is not produced . . . in its concern for increased price and profitability instead of for human needs, it sanctions the deliberate destruction of crops and goods.¹³

Capitalism is also wasteful in that there is no incentive to preserve dwindling natural resources. The capitalist system depends on the assumption that there is an infinite supply of the resources from which it makes its products. Even when it becomes clear that some of these resources are soon going to be used up, like oil, capitalism as it now stands has no incentive to cut back on its use since the system is driven by the search for profits. In fact, the more scarce and close to depletion a resource is, the more profit can be made from selling it since people are going to be willing to pay dearly for it. Thus the system, according to its socialist critics, is irrational as well as wasteful. By forbidding any over-all planning of the economy, capitalism necessarily must go through periodic breakdown and crisis: recession, depression, and the resulting unemployment.

Socialist Criticism of Capitalism's View of People

The preceding are some of the alleged factual consequences of capitalism according to its critics; the other dimension of their criticism centers on the view of human nature in the system. Fundamentally, critics point to capitalism's view of people as essentially selfish, driven by the desire to be

¹³Leo Huberman, "The ABC of Socialism" in DeWitt, p. 110.

superior to others in wealth, status, or power. The profit motive, while it may have produced some creative inventions in the past, has a tendency to exalt the worst aspects of human beings. As John Bennett puts it:

The profit motive . . . is morally objectionable. It tends to corrupt the individual and it becomes the source of temptation, even in far-reaching decisions, to put a very limited interest before the common good.¹⁴

The profit motive is linked, of course, with competition and individualism. In the capitalist system, priority is given to individual interests with the result that other persons are seen primarily as competitors, as things to work against or get the better of so that one may rise above them in status, wealth, or power. Thus, capitalism is essentially destructive of the social, communal impulse in persons. It provides no real incentive to work cooperatively (except to make a better profit at the expense of some other group), and no incentive to work *for* the needs of others or for those aspects of human life that celebrate and enhance the joy of sharing with and acting justly toward others.

The ultimate indictment, for some, of the capitalist system is that it has no way of providing systematically and intentionally for *social* needs. J. Philip Wogaman captures the issue in an imaginary debate between a capitalist and a Marxist critic:

Capitalist: The capitalist . . . responds to market demand. . . . He is the servant of the consumer.

Marxist: This may be *somewhat* true—if we could ignore monopoly price-fixing, manipulation by advertising, planned obsolescence, collusion among manufacturers to limit production, and other devices of consumer manipulation. But even if it were entirely true that the capitalist is the “servant” of the consumer, this only begs the question of power. For consumer power only represents a partial interest of society, not the whole interest. The whole interest includes what can be called public goods. Private capital, under pure capitalism, retains the right to determine *that* as well. The market is not a very good mechanism for determining social consumption because it is private and *individualistic*. . . . The individualism of the market . . . is appropriate to private consumption—not to public expenditures for needed public goods and services.¹⁵

The moral issue raised by capitalism’s critics is the ability of this economic system to serve the needs of the social order rather than the needs of

¹⁴John C. Bennett, “Capitalism, Ethics, and Morality,” in National Industrial Conference Board, *The Future of Capitalism* (New York: Macmillan, 1967), p. 162.

¹⁵J. Philip Wogaman, *The Great Economic Debate: An Ethical Analysis*, pp. 95–96. © SCM Press Ltd. 1977. Published in the U.S.A. by The Westminster Press. Reprinted by permission.

some at the expense of others. The alternative to the criticism historically has been some real or theoretical version of socialism, with the emphasis clearly on the social dimensions of living together in equity and justice.

THE SOCIALIST ALTERNATIVE

Drawing on Marx's view (see Chapter 4 for a discussion of the foundation of Marxist ethics) that under capitalism the worker is alienated from himself, from other persons, and from the results of his labor, socialist philosophers have insisted that under socialism persons will be able to fulfill their social or communal nature. In communism there will be "the complete return of man to himself as a social (i.e., human) being."¹⁶ Socialists generally admit, however, that it will require a revolution in human consciousness and in economic and social arrangements to bring out the communal impulse so long buried under capitalism.

Under socialism, the first practical goal will be to transfer production from private to social control. There must be public ownership of the means of production if the people are to determine effectively what should be produced for their needs.

Cloth will be made, not to make money, but to provide people with clothes—and so will all other goods.¹⁷

In place of the competitive free-for-all of the marketplace, socialism would substitute some form of central planning. This would avoid, socialists claim, the wasteful, overlapping efforts of capitalist production, including the enormous waste and debilitating effects of money and energy spent on advertising that appeals to the baser instincts of human beings.

In such a socialist system the worker will no longer be exploited by someone else: he will feel engaged in the productive process because he is working for a community in which he has an important stake and a deciding voice. Critics of socialism point out that this vision is simply naive or utopian. Peter Berger claims that "the fundamental contradiction of socialism . . . is that every empirical attempt to realize its vision of solidarity has resulted in alienations far worse than it protested against in the first place."¹⁸ Or, as Michael Novak puts it, "we live in a world, after all, which has been and is harsh to human beings . . . there is a not-niceness in nature" which the socialist blindly covers over in his unrealistic assumptions about human motivation.¹⁹

¹⁶Karl Marx, *Economic and Philosophic Manuscripts of 1844*, trans. Martin Milligan, ed. Dirk Struik (New York: International, 1964), p. 135.

¹⁷Huberman, p. 127.

¹⁸Peter Berger, "Capitalism and Socialism: Ethical Assessment," in *Capitalism and Socialism*, p. 98.

¹⁹Michael Novak, "Seven Theological Facets," in *Capitalism and Socialism*, p. 118–119.

Freedom Within Socialism

One of the most serious problems socialists have to face as they look toward implementing their vision is how much freedom to permit the people as a whole in making the basic decisions that affect their lives. This is the problem of democratic versus autocratic socialism. If it claims that the people are the real determiners of their lives (and thus of the economy and politics that serve them), how can socialism avoid the people democratically making decisions that are hedonistic, selfish, or just plain stupid? Can socialism, in a political democracy, avoid the emergence of self-interest seeking to consolidate power under the rhetoric of “communal interest”? The experience of the Soviet Union is not reassuring on this score. It has been tempting for some forms of socialism to insist on control from the top in the name of the people on the bottom. The result has been the creation of a totalitarian regime in which personal freedom has been reduced or even eliminated. The fundamental human desire for such freedom is witnessed to by the increasing attempts of many within socialist countries to escape them. The presence of the same impulses intrinsic to capitalism (initiative, desire for power, competition) thus becomes as much a problem for autocratic socialism as it does for its hated alternative.

Efficiency

There is also the problem of efficiency. While it might sound nice to talk about the people making decisions, how is this to be effected in a practical way? Wouldn't layer upon layer of a bureaucracy have to be developed? Wouldn't every idea have to pass up and down thousands of channels, be checked out in a multitude of ways by millions of people before it could be enacted? The problems are difficult. Capitalists point to the unenthusiastic mood among workers in socialist countries. Some socialist systems, like Yugoslavia, *are* experimenting with variations in the socialist model to overcome this problem. By decentralizing some decisions and by allowing a limited form of competition among some worker-owned industries, the Yugoslavs are trying to balance the need for overall social planning with the need for greater efficiency and a closer relation between groups of people and their decisions. The capitalist objection to socialist economic *practice* has been to argue that it cannot do what it promises. “It offers redistribution *and* abundance—and on this promise it simply cannot deliver.”²⁰

²⁰Irving Kristol, “The Spiritual Roots of Capitalism and Socialism,” in *Capitalism and Socialism*, p. 9.

Capitalism, on the other hand, offers the possibility of continual economic growth—"and delivers."²¹ The failure of socialist systems to satisfy the economic needs of their people is indicated by reports of workers' dissatisfaction with goods and services from within some socialist countries. The lack of statistical information (which would justify a point-by-point comparison of such information between this country and many socialist countries) also indicates the relative lack of openness found in nondemocratic, noncapitalist societies.

Perhaps the most important issue in this regard in any socialist scheme is the rights of those members who dissent from the will of the majority. How will those rights be protected? What role will there be for a critical and vocal minority viewpoint? A democratic socialism would have less trouble with this question than an autocratic one, but so far, no completely persuasive models have been realized in practice.

A Comparative Issue: Medical Care

A brief examination of a concrete issue common to both socialism and capitalism will help, in summary, to illuminate the differences between these two models of human life. No subject in recent years has stirred up so much debate (in this country) as the question of whether we should have a national health insurance scheme. Opponents say that such a plan smacks of socialism and would undercut the free enterprise system that has made American medicine the envy of the world.

The issue is essentially one of the right of persons to have medical care provided without regard to their ability to pay what the market demands versus the right of the medical profession to sell its services on the free market according to the rules of free enterprise. The proposal for national health insurance (in its various forms) rests on the claim that medical care is a *right* of every person, as basic a right as education or the vote. As a right, it cannot be made available on the basis of ability to pay. Socialists would argue that the only way to resolve the problem of providing medical care to those who cannot afford it is through some control of the medical care system by society as a whole. Someone will eventually have to pay for the care provided, but if it is controlled and planned centrally (allowing for some freedom of choice in areas not affecting ability to pay), people will not be afraid to seek medical help out of fear that they cannot pay for it.

Socialists also point out that in capitalism consumers (the patients) have little or no control over what they pay for: they must pay the doctor's fee

²¹Kristol, p. 27.

(or the insurance premium) but beyond that are at the mercy of the doctor's decisions about how much more care (and thus how much more money) is needed. The fee-for-service model, basic to capitalism, has a built-in conflict of interest for doctors since it is they who determine how much more service the patient needs and it is they who benefit from that determination. Capitalists reply by pointing out that doctors will not be inclined to do their best work or put in long hours and creative effort if the impersonal, bureaucratic hand of the state controls their activity. They argue that many doctors in socialized medical schemes, such as Great Britain's, are trying to leave and move to countries where no such controls exist. The socialist, in response to this argument, asks whether ministering to the medical needs of other human beings should ever be based on the desire for profit or monetary advantage. Thus, at the very heart of the debate over national health insurance we find revealed, perhaps more clearly than anywhere else, the fundamental differences between those who assume something like the socialist mode of human interaction and those who assume the capitalist values.

A Conservationist Caution

Historically, the debate between capitalism and socialism has occupied most of the space allotted to discussion of economic models and their ethical implications. Recently, however, a third economic model has entered the discussion. It sharply questions some assumptions common to both capitalism and socialism. Known as conservationism, or simply as "the small is beautiful" concept (after its primary spokesman, E. F. Schumacher), this model rejects what it calls the idols of productivity and consumption (no matter who determines them) and replaces them with a vision of life lived simply and in harmony with the environment. (See Chapter 16 for a fuller discussion of the ecological issues underlying this economic model.) We live in a time of rapidly depleting, nonrenewable natural resources like oil and gas. We have been driven in the past by the notion that our standard of living must continually rise and that economic growth is necessary to that end. This has meant greater and greater (material) consumption. Schumacher and others wish to call a halt to this notion of human fulfillment.

It is not the quantity of things consumed, they argue, but the quality of consumption that makes life meaningful. This might mean a return to a form of production that is much more limited in scope and involves the worker much more directly. Production and technology need to be scaled down, not built up, to serve the specific needs of those who will use them. The economic machine must not be out of balance with the sustainable resources of the earth. Reducing levels of consumption need not mean a

return to a lower standard of living, but a different standard, one in which work and leisure are more harmoniously integrated and thus more fulfilling.

It might be argued that this model of scaled-down economics is more in line with socialism than capitalism but its advocates point out that many socialist economies have the same uncontrolled urge to increase production as capitalism does despite the different way in which it is determined and its fruits distributed.

Nevertheless, the model of human life suggested by the small is beautiful conservationist idea does, like socialism, point away from the individualism and hedonism implicit in capitalism and toward an understanding of human nature more directly based on the joys of human fellowship and creative activity.

ECONOMIC IDEALS AND ECONOMIC REALITY

It should be clear that in our analysis of alternative economic systems, we have been treating both as *ideals*: We have stressed the values each claims to strive for. But in practice ideals are always less than fully realized. The free market system is not entirely free nor is it wholly a market. Similarly, socialist values have never been fully embodied in any economic or social system. The critic of socialism uses the fact that no ideals are ever actualized in their purity to insist that socialism is naive and that capitalism is realistic about its understanding of human nature. The critic of capitalism uses the fact that ideals are not now being realized as a sign that capitalism prevents these values from being considered seriously and the socialist's values have not yet had a chance to be practiced without the shadow of capitalist hegemony hanging over them.

What this means is that in the real world, moral choices are made within systems that are less than pure. There are many factors beyond our control which impinge upon and impede the successful realization of moral values. It is important, therefore, to know which values can be put into practice with the least amount of distortion. It is also important to know which proclaimed ideals can be exploited most easily in order to justify self-serving or unjust behavior.

Moral reflection upon the values essential to different ways of organizing economic relationships is not complete until one has considered the complete picture of how these values come into play in the course of actual social and economic practice. Nevertheless, such practice should not become the object of attention so exclusively that it obscures the very real, though sometimes hard to reach, foundation of values on which all human institutions are ultimately built.

CHAPTER REVIEW

A. The moral context

1. Economic activity is moral activity because value judgments are always being made about what to produce and what to consume.
2. Each economic system has its own moral foundation.

B. Economic philosophies

1. Laissez-faire or free market economics stipulates that if each individual is free to pursue his or her own self-interest, a social order will emerge in which the good of the whole will be enhanced.
2. In such a scheme, incentive and the love of achievement will be rewarded.
3. The profit motive is the catalyst that drives the economic system and rewards incentive. Closely tied to it are the principles of competition and the defense of the right to private property.
4. Capitalism meets its social obligations by rewarding the production of goods for mass consumption and by providing employment.
5. There are versions of capitalism in which the state plays a more active role in meeting basic public needs such as education, police protection, and protection against deception.

C. A socialist critique of capitalism

1. The socialist criticism of the free market system, echoed by many people around the globe, focuses on what it regards as the failure of capitalism to achieve economic justice.
2. The inequities of capitalism are alleged to be unequal distribution of wealth, the concentration of power in relatively few hands, the limits of freedom for those with little to offer on the market, the treatment of labor as a commodity, and the exploitation of racism and sexism.
3. Capitalism as such has no incentive to sell goods that are essential for human welfare or to refrain from stimulating, through advertising, a desire for goods that are nonessential.
4. A crucial objection to capitalism by its socialist critics is that its view of human nature is demeaning. Capitalism regards human beings as self-centered individuals who are not interested in working communally for the common good.

D. The socialist alternative

1. Drawing on the work of Karl Marx, the socialist alternative looks toward an economic system in which the human being's social nature

- will be fulfilled. In such a system production will be under social control and will be centrally planned.
2. The socialist alternative must face the question of whether it permits sufficient individual freedoms and is efficient in providing what it promises.
 3. The provision of medical care under capitalism and socialism reveals the fundamental differences between the two systems.
 4. A warning to both capitalism and socialism is issued by conservationists who argue that any responsible economic system must learn to conserve its resources.
 5. Economic ideals are never realized perfectly. Moral choice will depend in part on which economic values can be realized in practice with the least amount of distortion and which are less easily subverted by self-serving rationalization.

SUGGESTED READINGS

Friedman, Milton. *Capitalism and Freedom*. Chicago: Univ. of Chicago Press, 1962.

A strong defense of capitalism by one of its most famous economic spokesmen.

Kristol, Irving. *Two Cheers for Capitalism*. New York: Basic Books, 1978.

Another strong defense of capitalism by someone who was once attracted to its alternative.

Marx, Karl. *The Economic and Philosophical Manuscripts of 1844*. Edited with an introduction by Drik J. Struik. Trans. Martin Milligan. New York: International, 1964.

The major work by Marx in which he presents his moral objections to capitalism.

McGovern, Arthur F. *Marxism: An American Christian Perspective*. Maryknoll, N.Y.: Orbis, 1980.

A comprehensive analysis of the development of Marxism and a fair comparison of its principles in relation to the principles of capitalism. Also deals with the religious objections to socialism.

Novak, Michael ed. *Capitalism and Socialism: A Theological Inquiry*. Washington D.C.: American Enterprise Institute for Public Policy Research, 1979.

A spirited collection of essays in support of the virtues of capitalism by some of its leading defenders, including Irving Kristol, S. M. Lipset, and Peter Berger.

Wogaman, J. Philip. *The Great Economic Debate: An Ethical Analysis*. Philadelphia: Westminster, 1977.

A masterful explication of the moral values implicit in different economic systems.