

Capitalism: A Good Word For A Bad Thing

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The Freeman editor Sheldon Richman, speaking at George Mason University, raised the question of just what mainstream libertarians mean when they call a country “capitalist.” What qualifies a country as “capitalist”?

A lot of countries with relatively low indices of economic freedom (including those ranked as “mostly unfree”) are conventionally regarded as “capitalist,” and referred to as such in neoliberal agitprop comparing them favorably to non-capitalist countries like Cuba. And the talking heads at CNBC and scribblers in the business press commonly refer to “our capitalist system,” even though it’s doesn’t even remotely approximate a free market.

So in common usage, among establishment libertarians and what passes for mainstream “free market” wonks, any country that hasn’t adopted Marxian socialism as its official ideology is “capitalist.”

Based on these observations, Richman concludes that “capitalism” in practice “designates a system in which the means of production are de jure privately owned.”

Interestingly, Murray Rothbard relates an anecdote in which Ludwig von Mises made that distinction, or something very like it, explicit. He asked Mises: Given that there’s such a range of possible degrees of statism, from total statism to a totally free market, and given that no country approaches either absolute, what do you regard as the defining characteristic that divides essentially capitalist from essentially non-capitalist societies? Mises’ response: the existence of a stock market. A society with a market for capital goods is essentially capitalist.

As I have pointed out in the past—a point Richman refers to in his address—it is rather odd that “capitalism” was adopted as the conventional term for a society based on private property and free exchange. There’s no obvious reason, in seeking a name for an economy in which all factors of production are ostensibly equal and enter into free contract as equals, that capital should be singled in particular out for special emphasis. The choice of “capitalism” suggests some special ideological agenda, as if the system were run of, by and for capital as distinguished from other factors of production.

The unstated assumption embodied in calling a country “economically unfree” and yet capitalist, is this: an economically unfree country only ceases to be capitalist when the lack of economic freedom interferes with the ability of rich people to become richer from returns on land and capital. So long as the lack of economic freedom primarily limits the freedom of the poor to escape poverty, but the rich are able to enrich themselves on the pattern of UFC in Guatemala or

Jack Abramoff's clients in the Marianas Islands, it's got the Good Housekeeping capitalist seal of approval.

Mises answer to Rothbard above—aside from confusing a “market for capital goods” with a market for equity in firms—implies that, no matter how economically unfree, a country in which most business enterprise is absentee-owned by the owners of concentrated wealth, and most labor is hired for wages by such absentee owners, passes muster as “capitalist.” Presumably a country in which wealth was so widely distributed, and self-employment and cooperative ownership were such primary forms of social organization that stock trading was marginal in importance, would fall on the “socialist” side of Mises line—even if there were no regulatory constraints whatsoever on market exchange and the free movement of prices.

This is a very telling set of priorities: “capitalism,” as opposed to “socialism,” is not defined by the degree of economic freedom as such; it's defined by a particular institutional structure which is disproportionately to the benefit of a particular class of market actors.

As evidence that some forms of unfreedom matter more than others, consider the proclivity of some right-wingers for saying “Pinochet's political authoritarianism was lamentable, but at least he made Chile more free economically.” Never mind “minor” issues like whether reversing a land reform and returning land from the people who worked it to a landed oligarchy was a step toward “economic freedom.” Just consider Pinochet's authoritarian suppression of the labor movement: had it been the owners of capital, and not the sellers of labor-power, who had been tortured and disappeared, or found in ditches with their faces hacked off, I doubt they would have said the same thing. It's an odd distinction to treat repression of the owners of one factor of production as economic, but of the owners of another factor as only “political.”

This assumption underlies most mainstream “free market” commentary in the business press and business news channels: even when they explicitly refer to “our free market system” in so many words, they really mean a system in which most business enterprise is nominally “private.” No matter how statist a system of regulations is in effect, so long as they're exercised primarily through “private” actors, and most money passes through the hands of such “private” actors rather than the U.S. Treasury, it's a “free market” system. Hence, the kind of “free market” agenda you see at places like Heritage and the Adam Smith Institute for “privatizing” government functions by contracting them out to “private businesses,” even when those businesses are guaranteed a profit at taxpayer expense.

And by the way, those who object to all this as a form of semantic gamesmanship should remember that Mises and Rand were responsible, from the 1920s on, for the deliberate rehabilitation of “capitalism” as a term of pro-market apologetics. Before Mises' time, “capitalism” was used by mainstream political economists to describe the actual system of political economy they lived under—i.e., historic capitalism.

“Capitalism,” simply put, is the most honest term for the unfree market we live under. It's a system of, by and for the owners of capital; so long as it retains that primary characteristic, it's “capitalist,” no matter how unfree the market.

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