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Why Capitalism?

By Allan H. Meltzer

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Newspaper headlines during the peak of the housing-credit crisis called it “the end of capitalism” or the end of American capitalism. As often, they greatly over stated and misstated by projecting a serious, temporary decline as a permanent loss of wealth. Capitalist systems have weathered many more serious problems.

Capitalism as a guiding system for economic activity has spread over the centuries to now encompass most of the world’s economies. This spread occurred despite almost continuous hostility from many intellectuals and, in recent decades, military threat from avowedly Communist countries.

Capitalist systems are neither rigid nor identical. They differ, change and adapt. Their common feature is that the means of production are mainly owned by individuals; economic activity takes place in markets, and individuals are free to choose to greater or lesser degree what they do, where they work, and how they allocate their income and wealth. Capitalism is an institutional arrangement for producing goods and services. The success of this arrangement requires a legal foundation based on the rule of law that protects rights to property and in the first instance aligns rewards to values produced. It provides incentives to participants to act in ways that produce desired outcomes. Like any system, it has successes and failures. It is the only system that increases both growth and freedom.

Critics of capitalism emphasize the unequal distribution of income generated by the market system, frequent periods of unemployment and instability, and rewards for selfishness instead of beneficial, cooperative activity. Some favor heavy regulation to achieve social goals. Others favor putting control of resource allocation and ownership of resources under public, or government, control. They talk about equity and fairness, but it is mainly wealth redistribution that they seek. And none has found a path to sustained growth and personal freedom.

Many defenders of capitalism present the system as a moral system. It is morally right for people to use their resources as they choose. The problem with the moral defense of

capitalism is that it must neglect or dismiss the venal, often illegal, activity that occurs from time to time as well as expedient, self-serving decisions. All people are not honest all of the time. Greed leads people astray. Further, generally accepted moral principles have not brought agreement about specific decisions. People who share common moral principles often disagree about their application. The death penalty or abortion are among many ever present examples.

The rule of law is the principal, partial substitute for a moral code. To function efficiently or even to function at all, a capitalist system requires rules. The law must protect individuals and property, enforce contracts, sustain belief in systemic stability over time, and respond to political and social pressures.

The great German philosopher, Immanuel Kant recognized why we cannot rely on a moral defense of capitalism. Kant (1784) wrote that “out of timber so crooked as that from which man is made, nothing entirely straight can be carved.” Everyone is not honest. Periodic scandals reinforce this point.

Private and public officials broke the law. Kant’s dictum applies to private and public officials. We cannot escape criminality by choosing socialism. More likely, we increase it. Siemens was convicted of bribing officials in several countries. Enron, Worldcom and Madoff are recent examples of unethical and illegal corporate behavior. Watergate and Russian takeover of oil companies are examples of public malfeasance. There are many examples.

Capitalism survives and spreads because it recognizes Kant’s principle. People differ. Some give bibles but some sell pornography. Unlike its alternatives, capitalism does not take a utopian view of economic organization. It does not replace man’s choices with someone’s idea of perfection. It permits choices that bring change and that allows for rejection of changes after experiencing outcomes. It recognizes that all changes are not improvements and are not welcomed by everyone. Differences are accommodated often easily.

Socialism and other utopian systems are more rigid. They represent someone’s belief in the aims that “good people” should embrace. Movies are too violent. They must change. Television is too banal. It must improve. But the change is always from individual choice to an imposed choice. Freedom allows people choices that violate someone’s idea of social norms, so socialism restricts choice to those that officials permit. Capitalism accepts that some dislike the outcomes resulting from choice in a market economy. It does not seek utopia because it

recognizes that individual tastes and desires differ. A good society permits markets to accommodate differences.

Freedom to choose brings more satisfaction to people in many areas including non-market choices. Nothing assures that these choices meet everyone's idea of good, wholesome or moral. They do not. Choice in a capitalist system satisfies many; it meets the profits test. The market responds to demand.

Europeans have state supported churches. Organized religion is weak. Most of the public rejects the religious monopoly by not participating. The United States has many different churches. James Madison believed that competing churches would be stronger than a state church. Each would appeal to its members and attract others. Time proved Madison right. Competition brings choice in religion as in commercial markets and attendance increases. Churches offer services to attract and keep members.

Capitalism does not solve all problems efficiently. Long ago, John Locke recognized that some services call for collective action. His example was police power, and he showed that society was better served if everyone paid taxes to support a public service, --the police or night watchman. Thus he created a reason for collective action in place of individual choice for certain types of activity called public goods. This ruled out a complete system of market allocation without intervention.

Once we accept that collective action is the preferred means of allocating part of our resources, we introduce a government with the power to tax. The system becomes a mixed capitalist system.

It is revealing, but odd, that recent criticisms of financial market outcomes blamed unregulated markets and deregulation as a cause of the financial crisis. All financial markets have been regulated for decades. Very little deregulation occurred after 1999, when investment banks and commercial banks were permitted to merge. Separation was mandated in the United States in 1933. No other country followed, and no one explained why ending separation contributed to a crisis. Further, critics overlooked that regulation – the so-called Basel Agreement - required banks to hold more reserves if they increased risk. The banks responded to the regulation by putting risky assets in off-balance sheet entities thereby avoiding regulation. In practice, the Basel regulation increased financial risk.

A mixed system requires a rule for distributing responsibility and authority between the public and private sections. Most capitalist countries answer by choosing to have a democratic capitalist system. Voters choose the tax rate and the size of government. Voters choose the activities left to the market system, but they often decide to let governments set rules to regulate market behavior. The capitalist system that we have is democratic capitalism.

Democratic Capitalism

Voters need not, and do not, limit collective action to providing public goods such as defense or protection. In practice, democratic capitalism does not make a clear separation between private and public responsibility and authority. Voters can increase or reduce government's role. Voters can vote to redistribute income and elect governments that increase regulation of private sector activities. Elections often require a choice between one party that favors economic growth achieved by lower tax rates and less government regulation and another that emphasizes programs for redistributing income and expanding government's role and size. Many of these programs create or extend publicly supplied private goods. Some examples are education, health care, or nursery schools. These programs often provide services that the market can supply by offering prices below what the market charges. The cost is shifted to other taxpayers, current and future.

Democratic capitalism allows voters to favor higher growth at some times and more redistribution at others. This responds to the critics of capitalism who emphasize "fairness," a word that is hard to define precisely. Its meaning varies. Most often it is used to avoid mention of redistribution. Proponents of fairness usually favor increased public supply of private goods paid for by taxes or debt issues and increased spending for welfare.

Democratic capitalism introduces a means of treating the Kantian problem. Excesses by owners or managers of capital assets may be followed by regulations that seek to restrict actions labeled socially undesirable. Or voters can tax actions or outcomes that they dislike. The law restricts voters from confiscating property selectively. Recent attacks on smokers and smoking shows how changes in public attitudes affect legislation. Despite past and current failure to outlaw alcohol and narcotics, the public chose to restrict cigarettes.

Regulation to achieve social objectives faces two large problems. The first law of regulation says that lawyers and bureaucrats develop regulations but markets learn to circumvent

costly regulations. Outcomes often differ from plans. Robert Hahn taught me recently that this is known as the Peltzman effect.

Circumvention occurs in many regulated markets. The Basel agreement increased risk, as noted above. The object of campaign finance reform was to remove the allegedly noxious influence of money in politics and limit presidential candidates to an amount of spending decided by regulators. As the recent presidential election demonstrated, it failed. The election was more costly, and only one of the major party candidates accepted taxpayer money and a limit on spending. The legislation limited spending by candidates and parties but not by interest groups. One result was to further weaken political parties and increase the influence of single-issue groups. Parties work to harmonize divergent interests. Specialized groups often work to magnify differences making policy compromise more difficult. This was not the outcome that proponents of McCain-Finegold or similar legislation promised.

Regulation is socially useful if it aligns private and social costs. This is the message of the “night watchman”; collective action can reduce or remove external diseconomies by equating private and social costs. Regulations that do that increase efficiency. But not all regulations are of that kind. If there were a second law of regulation, I believe it would state that the aim of regulation in a market economy should be to equate private and social costs. Failure to do so is an invitation to find ways of circumventing regulation. It is sufficient but not necessary. Many inefficient regulations survive for indefinitely long periods. Often they reward a group powerful enough to sustain them. Think of agricultural subsidies for high income farmers as one of a multitude of programs that persist and grow. Peltzman (2004) offers another reason. A large literature discusses and documents “captive” of regulatory agencies by the regulated. Under democratic capitalism, costly distortions of this kind seem unavoidable. Regulation may persist by imposing strong penalties against circumvention. More research on the political economy of regulation and persistence is needed.

Democratic capitalism causes countries to alternate between more and less intrusive government. Voters’ central tendency changes as more voters prefer more redistribution or less, higher or slower growth. Often these changes reflect past results. Periods of low growth encourage voters to favor policies that reduce tax rates and regulation. Periods of sustained growth, however, often spread the distribution of income. Voters may elect larger transfers and increased current or future tax rates as in Meltzer and Richard (1981).

Raising tax rates or regulation shifts control of resource allocation from private to public managers. This does not avoid the Kantian problem. The same general problems arise, though the form differs. Neither the public nor the private sector holds only virtuous people. The many examples of corruption, bribery, and misfeasance acted earlier are a small sample. Offenses like bribery involve both public and private agents. Bribery is common in many countries.

Public sector regulators are inclined to be more cautious and more anxious to avoid failure than entrepreneurial capitalists. Decades ago Professor Sam Peltzman showed that the Federal Drug Administration placed excess weight on avoiding drugs and medications that might have harmful effects and gave less than optimal weight to avoiding the loss from restricting drugs that would benefit patients. That bias continues. The political outcome differs from the outcome that people would choose in the marketplace. And like all regulation, rule making and rule enforcement is open to pressure from interested groups.

Regulation does not avoid several problems. “Capture” by regulated entities occurs frequently. The Federal Reserve often acts as guardian of the New York banks interests. The Federal Aviation Administration discourages and even punishes employees who call for strict enforcement of safety rules. There are many other examples.

Well-run companies plan for the long term. Governments typically follow the political cycle, a much shorter term. Private sector companies make investments that increase employment, productivity and output. Public spending responds to public pressures for redistribution. AIDS receives substantial funding in response to active advocates. Other diseases that lack advocates receive less. Although much spending is defended or promoted as a way to help the poorest citizens, large spending programs transfer especially to the middle class. That’s where most voters are.

Democratic government introduces a separate way to allocate resources. Generally, those who succeed in the marketplace favor market allocation. Those who do not succeed favor allocation at the polling place. They are joined by those who dislike capitalism or prefer more emphasis on “social justice” and less on market efficiency. Social outcomes are a compromise between the two aims.

Alternatives to Capitalism

Critics of capitalism emphasize their dislike of greed and self-interest. They talk about social justice and fairness, but they do not propose an acceptable alternative to achieve their ends. The alternatives that have been tried are types of socialism or communism or other types of authoritarian rule.

Anti-capitalist proposals suffer from two crippling drawbacks. First, they ignore the Kantian principle about human imperfection. Second, they ignore individual differences. In place of individual choice under capitalism, they substitute rigid direction done to achieve some proclaimed end such as equality, fairness, or justice. These ends are not precise and, most importantly, individuals differ about what is fair and just. In practice, the rulers' choices are enforced often, using fear, terror, prison, or other punishment. The history of the 20th century illustrates how enforcement of promised ends became the justification for deplorable means. And the ends were not realized.

Transferring resource allocation decisions to government bureaus does not eliminate crime, greed, self-dealing, conflict of interest, and corruption. Experience tells us these problems remain. The form may change, but as Kant recognized, the problems continue. Ludwig von Mises recognized in the 1920s that fixing prices and planning resource use omitted an essential part of the allocation problem. Capitalism allocates by letting relative prices adjust to equal the tradeoffs expressed by buyers' demands. Fixing prices eliminates the possibility of efficient allocation and replaces consumer choice with official decisions. Some gain but others lose; the losers want to make choices other than those that are dictated to them.

Not all socialist societies have been brutal. In the 19th century, followers of Robert Owen, the Amana people and many others chose a socialist system. Israeli pioneers chose a collectivist system, the kibbutz. None of these arrangements produced sustainable growth. None survived. All faced the problem of imposing allocative decisions that satisfied the decision-making group, sometimes a majority, often not. Capitalism recognizes that where individual wants differ, the market responds to the mass; minorities are free to develop their favored outcome. Walk down the aisles of a modern supermarket. There are products that satisfy many different tastes or beliefs.

Theodor Adorno was a leading critic of postwar capitalism as it developed in his native Germany, in Europe and the United States. He found the popular culture vulgar, and he

distrusted the workers choices. He wanted a socialism that he hoped would uphold the values he shared with other intellectuals. Capitalism, he said, valued work too highly and true leisure too little. He disliked jazz so he was not opposed to Hitler's ban in the 1930s. But Adorno offered no way of achieving the culture he desired other than to impose his tastes on others and ban all choices he disliked. This appealed to people who shared his view. Many preferred American pop culture whenever they had the right to choose.

Capitalism permits choices and the freedom to make them. Some radio stations play jazz, some offer opera and symphonies, and many play pop music. Under capitalism, advertisers choose what they sponsor, and they sponsor programs that people choose to hear, or on television what they watch. Under socialism, the public watches and hears what someone chooses for them. The public had little choice. In Western Europe change did not come until boats outside territorial limits offered choice.

The Templeton Foundation recently ran an advertisement reporting the answers several prominent intellectuals gave to the question: "Does the free market corrode moral character?" Several respondents recognized that free markets operate within a political system, a legal framework, and the rule of law. The slave trade and slavery became illegal in the 19th century, but they were legal earlier. This is a major blot on the morality of free markets that public opinion and the law eventually removed. In the United States those who benefitted did not abandon slave owning until forced by a war.

Most respondents to the Templeton question took a mixed stand. The philosopher John Gray recognized that greed and envy are driving forces under capitalism, but they often produce growth and raise living standards so that many benefit. But greed leads to outcomes like Enron and WorldCom that critics take as a characteristic of the system rather than as a characteristic of some individuals that remain under socialism. Michael Walzer recognized that political activity also corrodes moral character, but he claimed it was regulated more effectively. One of the respondents discussed whether capitalism was more or less likely to foster or sustain moral abuses than other social arrangements. Bernard-Herri Levy maintained that alternatives to the market such as fascism and communism were far worse.

None of the respondents mentioned Kant's view that mankind includes a range of individuals who differ in their moral character. Institutional and social arrangements like democracy and capitalism influence the moral choices individuals make or reject. No

democratic capitalist country produced any crimes comparable to the murders committed by Hitler's Germany, Mao's China, or Lenin and Stalin's Soviet Union.

As Lord Acton warned, concentrated power corrupts officials. Some use concentrated power to impose their will. Some allow their comrades to act as tyrants. Others proclaim that their ends such as equality justify force to control opposition. Communism proclaimed a vision of equality that it never attained. It was unattainable because individuals differ about what is good. And what is good to them and for them is not the same as socially desirable.

Kant's principle warns that utopian visions are unattainable. Capitalism does not offer a vision of perfection and harmony. Democratic capitalism combines freedom, opportunity, growth, and progress with restrictions on less desirable behavior. It creates societies that treat men and women as they are, not as some utopian vision. In the *Open Society and Its Enemies*, Karl Popper showed why utopian visions become totalitarian. All deviations from the utopian ideal must be prevented.

The Enrons, WorldComs and others of that kind show that dishonest individuals rise along with honest individuals. Those who use these examples to criticize capitalism do not use the same standard to criticize all governments as failed arrangements when a Watergate or bribery is uncovered. Nor do they criticize government when politicians promise but do not produce or achieve. We live after 25 to 40 years of talk about energy, education, healthcare, and cocaine and drugs. Governments promise and propose but little if any progress is visible.

In the last year we experienced some major errors by government or its agents. Here are some examples. The Federal Reserve "rescued" American International Group (AIG) by using billions of taxpayer dollars. AIG had three profitable divisions including a highly successful insurance company. Bankruptcy court would have been a better outcome. Last August, the government lost six nuclear warheads that were later found on B-52 bombers flying over the United States. Congress approved purchases of ethanol made from corn that raised the world price of food but did not reduce pollution. And government loaned money to General Motors and Chrysler followed by loans to the company that immediately offered zero interest rate loans to borrowers with poor credit ratings. Government promises to spend for old age pensions and healthcare far exceed any feasible revenues to pay for the promises. Does Congress develop a feasible plan? The estimated present value of the unfunded healthcare promises is \$70 to \$80 trillion dollars. No private plan would be allowed to operate this way.

Growth and Progress

After World War II, and especially after 1960, the developed countries led by the United States worked to raise growth rates in poor countries of the world. There were two experiments. The former Soviet Union and its fellow Communist countries controlled property and directed resource use according to plans developed by a central bureaucracy. Capitalist countries relied on opening to the international market and to resource allocation based on market demand and individual choice.

The results are clear. Capitalism and the market system proved much more effective at development and poverty reduction than planning systems whether as in India by a democratically chosen government or by an authoritarian regime as in the Soviet Union or China. There is not a single example of sustained successful growth under traditional Communism. The contrast was clear at the end of the 1980s in comparison between North and South Korea, East and West Germany, and China compared to the Chinese Diasporas in Asia. The Indian government tried to apply the socialist principles taught to many of its leaders at the London School of Economics.

There can be no better recognition of the failure of these alternatives to capitalism and the market system than their abandonment by their practitioners. India, China, and most of the former Communist countries opened their economies. China and others joined the world trading system. China and India permitted and even encouraged private ownership of resources including capital.

The result was a dramatic reduction in poverty. Many more people improved their living standards than in fifty years of development under government planning, regulation and resource allocation. Capitalism and the market proved far better than the state at reducing poverty and raising living standards. Critics of capitalism turned to other reasons for opposition. Margaret Thatcher described their reaction to her success at reforming the British economy, increasing productivity and reducing inflation.

“Deprived for the moment at least of the opportunity to chastise the Government and blame free enterprise capitalism for failing to create jobs and raise living standards, the left turned their attention to non-economic issues. The idea that the state was the engine of economic progress was discredited—and even more so as the failures of communism became more widely known. But was the price of capitalist prosperity too high? Was it not resulting in gross and

offensive materialism, traffic congestion and pollution? ... [W]as not the 'quality of life' being threatened?

"I found all this misguided and hypocritical. If socialism had produced economic success the same critics would have been celebrating in the streets."¹

Socialism as a development model faces several obstacles. One is the reduced ability to recognize mistakes and act on that knowledge. A venture capitalist knows that all of his investments will not succeed. He must decide whether to advance more capital or close the firm. The capitalist facing the loss of his own investment makes a decision based on his estimate of expected future return. The socialist uses different criteria. Admitting error is personally costly and requires layoffs. Faced with uncertainty about future outcomes, the socialist and the capitalist choose different outcomes. There is a risk of shutting down an enterprise that becomes profitable and the risk of supporting a failing enterprise. Workers, voters, lose employment. On average the capitalist is more willing to close. The concentration of successful innovation in capitalist countries suggests that the capitalist strategy produces better results for society as well as for investors.

Capitalism rewards innovators, so it encourages innovation from many people willing to invest in their ideas. Socialism concentrates decision making in a small group. Fewer new ideas develop. Freedom to fail or to gain drives innovation, change, and progress.

Some of the innovations are inconsistent with religious or moral standards. Critics of capitalism seize upon these changes to condemn the basic choices that capitalism and freedom permit. The critics prefer to impose their preferences in place of market driven choice. Democratic systems do not sustain for long the rules imposed to control the public's choices.

When I first moved to Pennsylvania fifty years ago, many rules and prohibitions remained. Most retail stores had to close on Sunday. Bars could not sell drinks on Sunday. Gradually public pressure induced changes to satisfy consumer choice.

These simple examples show the fundamental problem. Many private tradeoffs differ from the socially imposed tradeoff. Those who wish to impose standards or rules that do not have public support either give way or resort to coercion. The proponents of rules that they favor or resource allocation that they favor, whether from religious or socialist orthodoxy or from

¹.Thatcher, Margaret, *The Downing Street Years*, 625.

some other source have three choices. Either convince a majority to support their direction, resort to coercion, or accept democratic choices and change or remove regulations. Regulation is most likely to last if it equates private and social cost.

Kant does not assure us that any of the three outcomes will always be wise or good. On the contrary, he tells us that we cannot always depend on our leaders to pursue our interests instead of their own.

Socialism, or any system based on an orthodoxy or plan for promoting “good” inevitably begins with persuasion and ends with coercion. Any deviation from orthodoxy is a step away from “the good.” Hayek’s *Road to Serfdom* showed why government planning is inconsistent with democratic choice.

Democratic capitalism is not a rigid orthodoxy. People can choose more redistribution or less. They can change their votes. Some countries choose a larger welfare state with greater redistribution. Others choose a smaller public sector and a higher rate of growth. A remarkable feature of democratic capitalism is that its outcomes are relatively stable. There are always critics who favor more redistribution and express concern for unmet “social needs.” At the same time, some critics want lower tax rates, less current redistribution, and more growth. Major changes are rare.

Democratic capitalism persists and spreads because it is not a system of imposed morality. It is the only system we have discovered that fits mankind not as perfected according to some standard but as Kant described.

Income Distribution

In a democratic capitalist system, the distribution of income is a major policy issue. There are fewer rich than poor or middle class. Fifty percent of the votes decide an election. The income of the median voter lies below the mean income, so a majority of the voters can redistribute income. Early in the history of the American republic, de Tocqueville warned about the temptation for the voting majority to tax the incomes of those above the mean.

Experience suggests that there are many examples of redistributive policy allegedly carried out to benefit the poor. One problem is that the poor are not the same as the lowest 10 or 20 percent of the income distribution. One reason is that people can be in the lowest tail

temporarily. Another reason is that many of the poor do not vote but older people and middle income people do. They get more attention.

Angus Maddison, the leading researcher on the history of economic growth, found that by the year 1000 Asian countries led all others in per capita income. By 1820, the capitalist economies of Western Europe and the United States reached twice the Asian average. By 1950, the difference was wider. Several Asian countries adopted capitalist methods. The gap narrowed. After Japan and South Korea showed that growth was a capitalist, not a western, force for growth others followed. Eventually China and India abandoned socialism and accepted capitalist methods.

Critics complain repeatedly about differences in income between highest and lowest income groups. U.S. data show that since 1975 household income at the 90th percentile (in 2003 dollars) rose faster than household income at the 10th highest percentile in every five year period except 1990-95. Relative (real) income of the 90th percentile rose from 10.8 times the 10th percentile to 13.7 times. Comparisons that use median household income are misleading. Many more households have only a single percent (earner) or a retired single person.

Sweden is often used as a model of humane capitalism. There is no doubt that Sweden tried hard to redistribute income. In 1975 the top 1 percent of consumer units received 2.8 percent of real disposable income. By 2000, the top 1 percent increased its share to 8.8 percent.²

A recent comprehensive study of Swedish income distribution during the 20th century concluded: “Our findings suggest that top income shares in Sweden, like many other Western countries, decreased significantly over the first eighty years of the century. ... Most of this decrease happened before 1950, that is, before expansion of the Swedish welfare state. As in many other countries, most of the fall was due to decreasing shares in the very top (the top one percent), while the income share of the lower half of the top decile ... has been extraordinarily stable. Most of the fall is explained by decreased income from capital.” (Roine and Waldenstrom, 2006, 24)

Income redistribution is easier to promise than to achieve in practice by activist policies. Many countries have tried, but Roine and Waldenstrom show that the broad contour of the share of the top percentile is very similar in the seven countries they examined. All countries experienced a large decline in the share of the top decile from about 1910 to 1980. The range

² Source: Statistics Sweden.

drops from 20 to 25 percent to 5 to 10 percent in 1980. This is followed by a rise. By 2004, major differences appear, perhaps reflecting the importance of new technology and the quality of educational attainment in different countries. The top decile received about 15 percent in the United States, 13 percent in Canada and the United Kingdom but about 8 percent in Sweden and 5 percent in the Netherlands. Chart 1 shows the decline in the share reserved by the top percentile.

Insert Chart 1 here

Data on income distribution have many flaws. People underreport and accurate sampling is difficult. The share of income from capital varies across countries. People move within the distribution, so the lowest 10 percent and the highest 10 percent are not the same people over time. The proportion of divorced, separated, or single mothers has increased. The lowest 10 percent includes a disproportionate number of families of this kind. Their relative poverty cannot be blamed on capitalism.

Educational attainment increased in importance as a source of income in the latter part of the 20th century. Low educational attainment and broken family structure are related. Differences in educational attainment work to spread the income distribution. Education as a cause of growth in capitalist countries also contributes to spreading the income distribution.

Conclusion

There is no better alternative than capitalism as a social system for providing growth and personal freedom. The alternatives offer less freedom and lower growth. The “better alternatives” that people imagine are almost always someone’s idea of utopia. Libraries are full of books on utopia. Those that have been tried have not survived or flourished. The most common reason for failure is that one person or group’s utopian ideal is unsatisfactory for others who live subject to its rules. Either the rules change or they are enforced by authorities. Capitalism, particularly democratic capitalism, includes the means for orderly change.

Critics of capitalism look for viable alternatives to support. They do not recognize that, unlike socialism, capitalism is adaptive, not rigid. Private ownership of the means of production flourishes in many different cultures. Recently critics of capitalism discovered the success of Chinese capitalism as an alternative to American capitalism. Its main failure is mercantilist policies supported by rigid controls on capital. China’s progress takes advantage of an American

model – the open trading system – and the willingness of the U.S. to run a current account balance. China is surely more authoritarian, a political difference that previously occurred in Meiji Japan, Korea and Taiwan. Growth in these countries produced a middle class followed by demands for political freedom. China is in the early stages of development following the successful path pioneered by Japan, Korea, Taiwan, Hong Kong and others who chose export-led growth under trade rules. Sustained economic growth led to social and political freedom in Japan, Korea, and Taiwan. Perhaps China will follow.

Capitalism continues to spread. It is the only system humans have found in which personal freedom, progress and opportunities coexist. Most of the faults and flaws on which critics dwell are human faults as Immanuel Kant recognized. Capitalism is the only system that adapts to all manner of cultural and institutional differences. It continues to spread and adapt and will for the foreseeable future.

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