Straight Thinking about Capitalism

This essay is a look at the assumptions behind capitalism and their corresondence (or, in this case, non-correspondence) with the values that most of us hold. Despite this, those assumptions have become the underlying rules for our society. Until we begin to think differently, we won't act differently

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As a physician I occasionally speak to groups of medical students. A number of years ago, I noticed that my years as a doctor and writer working among the poor for justice had—in the eyes of some students—somehow qualified me as, in their words, a “saint.” Their judgment, apparently, was ultimately based on my voluntarily accepting an income well below average for physicians, that is, not using my medical credentials to earn the highest possible income.

The facts were: Our family income was above the median for American families; like most Americans questioned in polls, we knew that—beyond a basic level—higher income would not make us any happier; unlike most Americans, my wife and I had been able to choose deeply fulfilling professions; we reaped the benefits of community far beyond measure. Yet, even after I’d presented those facts to the medical students, even after I’d pointed out that we were living lives of extraordinary privilege and meaning, they still considered me a saint … apparently because I wasn’t “maximizing my salary potential.”

What those students and I were experiencing were the tensions between our deepest personal values and the values of our economic system. These particular students obviously admired and seemed to want to emulate my choices to live more simply, share my gifts with the poor, pursue fulfillment over wealth, and so on, yet they felt it was something extraordinary, somehow beyond their reach, almost as if they felt a responsibility (to self? to family? to society? I’m not sure) to maximize their incomes, even at the risk of their own values.

Many of us experience this. We feel a fundamental struggle between the self-interest that underlies our economics and our own values of cooperation, sharing, self-giving, and simplicity, and the latter are often on the losing end. What’s going on? Is it inevitable that our values conflict with economic reality?

The word “economics” comes from two Greek words *oikos* or “house” and *nomos*, “one who manages,” so etymologically economics has a broad meaning, something like “care for the household” or, in our current context, “care for the earth and its creatures.” Expressed differently, the purpose of an economic system is prosperity and security … for everyone. In most modern economic discussion, however, the “for everyone” is usually left out or de-emphasized, and for understandable reason. After two hundred years of capitalism, 2.6 billion people around the globe remain impoverished, living on less than two dollars a day. Even in developed countries like the United States, roughly 30% of the population would be poor without government intervention. While one may certainly argue that global poverty would be much worse without capitalism, one can hardly argue that market-driven economics has been a smashing success in meeting everyone’s needs. To make matters much worse, the multiple environmental crises that threaten our civilization are directly related to the current economic system. These problems are widely perceived within the culture (polls show increasing public disenchantment with capitalism [1]), which begs the questions: Why do we meekly go along with an ethics that is not our own? Why are we not actively looking for alternatives?

One reason is certainly that, on its own terms, capitalism’s historical success has been stunning. It is by far the most powerful economic system the world has known for exploiting the natural world and creating wealth. Even if capitalism’s distribution of that wealth is grossly distorted, leaving much misery, sickness, and death and even if capitalism is destroying the environment, we who are affluent are afraid that any alternative would impoverish us. Certainly most of the past experiments with a state-controlled, completely planned economy have not worked out well.

A second related reason that we don’t look for viable alternatives is that capitalism has succeeded quite well in making the rich and powerful even richer and more powerful. With that wealth and power has come enormous influence upon our society, both politically and through the (expensive) medium of advertising. And, of course, for those with powerful influence on our society, capitalism has worked exceedingly well. Even many of us Americans who consider ourselves middle or working class have done very well by the current system and—despite our knowledge of global immiseration—have been reluctant to look too critically at our meal ticket. And even the impoverished (at least in the US) are too often seduced by the universal declarations that their well-being depends upon a market-based economic system and are convinced that capitalism will ultimately benefit them, too.

But a third reason that we don’t usually search for alternatives to the current structure of our

economic system has recently been explored by Howard Richards and Joanna Swanger. ***[2]*** Since its development in the 18th century, the modern study of economics has touted itself as a *science* and claimed to be based on universally valid principles, on *facts* of nature. Its advocates claim that the principles of neoliberal (that is, free-market) economics are not ethical values or even choices, but simple descriptions of the nature of reality. The basic principles don't prescribe how things *should be*, say the economists; they describe how things *are*. Richards & Swanger disagree and make a convincing case that the "principles" of the economic system are in fact "assumptions." They are socially constructed values that could be chosen differently if they were no longer hidden as rigorous, proven scientific principles.

Assumptions of Capitalism

What are those value-laden assumptions of free-market capitalism? (It's about this point in the essay that many readers' eyes begin to glaze over believing that economics is too complicated; stay with me; this is straightforward stuff that is not difficult to understand.)

- Adam Smith, the "founder" of modern economics believed that the first and most important economic assumption is that the basis of the economic system is that people act according to self-interest. To the extent that self-interest is defined as that which people actually do, then, of course, it is tautological to say that people act according to self-interest. But Smith is clear that he means *selfish* self interest, that is, without concern for others. Smith believed that an "invisible hand" would convert individual self-interest into what's best for the entire community. Smith famously wrote in 1776:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self-love, and [we] never talk to them of our own necessities but of their advantages. [3]

- The second "law" is that it is in everyone's own self-interest to maximize financial profit. As a philosopher, Smith recognized that people may place non-financial goals (eg family) over

money, but he stated that the economic system worked best if everyone sought maximum financial profit.

- Third, the assumption is that the value of things is measured by their “exchange value,” that is, the amount of money they command on the open market. This is contrasted with “use value,” the value of things to the people who use them. For example, oxygen in the air obviously has a high use value since it’s necessary for life, but it has no exchange value in the economic system because it’s freely available and no one will pay money for it; within our economic system it has no value at all, which partially explains air pollution.
- Fourth, the distribution of goods and services is determined by supply and demand, that is, by how much there is for sale and what people are willing to pay for it. Demand, of course, is measured by money, so those without money can’t play. If people can’t pay for, say, food, then they don’t receive it. The other implication is that supply follows demand, with the inevitable result that luxuries for the wealthy are available even when necessities for the poor are not.

- And finally, private property is sacrosanct: Within broad limits one can do what one wants with what one owns, most notably prevent others from using it.

As a society we have gradually accepted these assumptions as “the way things are,” in large part because they are not usually laid out this baldly but rather hidden from examination. We usually don’t even think about these underlying assumptions, and, if we do become aware of them, we have been sold on the proposition that they are “objectively valid” principles and that economics must operate upon their basis. Accepting the economists’ assertions that these assumptions are inevitable facts of nature, we don’t examine how profoundly they contradict our real values. As a result, we exempt economic choices from our moral evaluation; we may not like the results, but that’s the way things are.

True, when economic “realities” lead to especially egregious results—like the extraordinary executive compensation that is currently so politically volatile, or extreme poverty within a nation of plenty, or thousands of deaths from environmental damage—we sometimes object and even demand that government intervene, but we rarely consider whether the presuppositions of economics *should* be different. And gradually (although we don’t think about it this way) in the economic sphere that is such an enormous part of our lives, the doctrines of capitalist economy begin to crowd out our own underlying values. Isn’t it obvious, almost tautological, we think, that people act out of their own self-interest? Why wouldn’t one maximize one’s profit if one could; isn’t that the point? How else shall we measure the value of things except by money? Of course, things are going to be distributed according to who can afford them; you don’t expect business people to give things away, do you? And isn’t it obvious that, if you own something, you have the right, basically, to do what you want with it?

And if the assumptions are considered facts, then their nature as values is hidden and

unevaluated.

Our Actual Values

The contradiction is that the ethics that these assumptions represent are not what the vast majority of us really value, or at least say we value. Contradicting the assumptions of capitalism listed above,

- most of us know that our real self-interest lies in sharing and cooperation with others, not in solely pursuing individual self-interest.
- Most ofus know that, beyond a pretty basic level, more income (profit maximization) and more stuff doesn't make us happier. (Indeed, over the last sixty years as average American incomes have more than doubled, poll data as well as objective psychological measures have shown no increase in levels of happiness or satisfaction.)
- Most of us know that the things we really value—family, children, a job we're fulfilled by, community, free time, justice—can't be measured in dollars and cents.
- Most of us know that there's something wrong with the market's global distribution of necessities by supply and demand. There's something obscene about an economic system that allows some to throw a $27.2 million birthday party [4] while a billion other people are literally starving.
- And most of us know that what we own ought to be shared with others.

Sure, we may not always act according to these values, but they nevertheless influence our actions and say something profoundly true about us.

Nor are capitalism's underlying economic assumptions consistent with any of the major spiritualities. The Judeo-Christian tradition, for instances, views acting according to self-interest as selfish, maximizing profit as greed, measuring things solely according to their monetary value as idolatry, distribution purely according to supply and demand as unjust, and the sanctification of private property as denying our stewardship of the gifts God gives us.

Value Choices, Not Facts

Nevertheless, capitalism's unchallenged assumptions have become—in Richards and Swanger's terminology—the "constitutive rules" of our societies' functioning. Although these "rules" contradict our underlying values, they have become society's framework, anyway. They have become what people expect of others in the economic realm and do not feel they have the right to object to. I may not personally act out of a narrowly defined self-interest, but I believe I have no right to demand that others do. I may not believe that executive compensation in the millions of dollars is moral, but I don't believe I have the right to object (except, perhaps, in those egregious cases). I believe others should share what they own, but I don't have the right to expect it of them.

In a very important sense then, the economists are correct. This *is* how oursociety actually works. Since the assumptions of the market are perceived as simple reality, they are the "facts" of economics. *Given the assumptions*, the logic of capitalism is unassailable, a reality that can lead to despair. But the economists are wrong in their assertion that these assumptions reflect the requirements of nature. And they are even more wrong—at least according to the values most of us claim—in their assertion that this is the way things *should* be. These assumptions are not facts; they are value choices that could be made differently.

In other words the constitutive rules according to which our society operates are "socially constructed." We choose them and we could make other choices. Indeed, for most of Western history and in most traditional cultures, the rules have been very different. Many traditional cultures, for instance, value cooperation and sharing [5] or (in Adam Smith's language) they see their self-interest in serving others. Plato considered justice the measuring rod of the society. The constitutive rules of medieval scholastic society (as best articulated by Thomas Aquinas) were based on love: just prices, sharing of goods, the duties of rulers and the ruled, the duty to serve others, etc. The constitutive rules of our society can be different. Hope in the seemingly impenetrable darkness is not only possible but also realistic.

A Failure of Imagination: Alternatives

A primary reason we go along with the current constitutive rules of the society is that we cannot imagine other alternatives. In fact, however, alternatives abound. Families and many small communities operate for the most part on the basis of cooperation and sharing. Millions of nonprofits are not allowed to make a profit, much less strive to maximize it; their primary goals are elsewhere, often to incarnate love for others by working towards justice. In perhaps a

majority of those nonprofits, individuals work for smaller salaries than they could command elsewhere. Worker-owned factories have as their primary value keeping workers employed. Co-ops operate by cooperation. Cities own businesses, and the “profits” are shared by all. The State of Alaska every year doles out to each citizen of the state several thousand dollars of its oil earnings. In Germany, workers and consumers sit as voting members on the boards of corporations to speak for values other than profit maximization. Natural monopolies such as utilities often have their profits limited by government. There is no shortage of examples.

And we forget that government itself doesn’t operate primarily by the prevalent economic assumptions at all; its most important function is to do all the many things we know that market forces cannot do well: care for the environment, alleviate poverty, serve vulnerable populations, or protect the country. Think of Social Security, Medicare, Medicaid, public education: These are all institutions that operate by values very different from the currently constructed constitutive rules of society. Although government “intervention” in the economy is frequently seen pejoratively as “interfering with the market,” a better description is that government, at its best, is a form of economics that actually strives to fulfill the needs of everyone.

Why is it important to understand this abstract difference between constitutive rules and facts of nature? Because ideas are powerful; they shape our reality and influence what we do. When we believe that our economic assumptions are facts of nature, their ideological character remains hidden; we don’t even consider the possibility that we could choose differently. So there is a great tendency of consider alternatives to the current functioning of the economy to be naïve and unrealistic.

As long as profit maximization, the sanctity of private property, and distribution solely by supply and demand remain the unexamined bases of our economic system, we will not be able to feed the hungry or prevent ecological destruction.

Many who ardently hope and work for change would reject Richards and Swanger’s thesis. They believe that without a fundamental re-orientation in *power relationships* no change will be possible. It is power, they say, that determines the course of society; until those who rule society are replaced, we cannot expect justice or sustainability.

Perhaps. But as long as the constitutive rules of our society remain in place or unexamined, it won’t matter very much whose hands are on the levers of power. If worker-owned factories that value workers’ wages over profit have to compete in an economic system based on profit

maximization, eventually they will still have to compete with low-paid workers in poor countries and their own wages will fall. If enlightened managers sensitive to ecological concerns have to compete with companies that pay no attention to environmental impacts, ultimately their companies will lose the competition. Even if individual governments re-orient themselves to the needs of their people, as long as the current underlying assumptions remain unchanged, the economic isolation and financial debts of those governments will eventually devastate them. Despite, for instance, Nelson Mandela's profound commitment to the needs of the poor in South Africa, he eventually conceded that the country had to join the international economic system with all its unjust consequences or face the loss of foreign investment, loss of jobs, and further poverty. When Solidarity took over the Polish government after the fall of the Soviet Union and quickly instituted neoliberal economic policies, Lech Walesa was accused of selling his supporters out, "giving in" to corporate interests. But what if he wasn't selling out but recognizing the simple facts of economic, given the current system?

Does that mean we don't push for worker-owned factories, enlightened managers, or changes in government? Of course not! But we must recognize that those changes in power relationships will make a significant difference only if they lead to a deep change in our thinking.

The current economic assumptions do not allow for a just world or ecological sanity. But we put our collective heads in the sand and ignore the facts largely, I think, because we don't believe it's possible for things to be different. But if many of us begin to understand, at some level, that the underlying assumptions of capitalism are value choices leading us astray, change becomes possible.

This does not mean doing away with capitalism or ignoring its assumptions, which—properly understood and limited—have their place. Rather, it means that it's time to improve capitalism and transform it until the economic system actually produces prosperity and security for everyone in a sustainable manner. Despite growing inequality and environmental devastation, capitalism and its constitutive rules have been an extraordinary engine of growth over the last two hundred years. The poverty and injustice of the Middle Ages or pre-industrial Europe, or of many traditional societies was terrible. Today, at least in part due to capitalism, we have the economic capacity to meet the basic needs of everyone on the planet, which would not have been possible even 150 years ago. But capitalism as the sole basis for our economy is a runaway train about to jump the track, and it will never get us to where we need to go. As a society we must take the next developmental step that will still include aspects of the old system but modify others and create new possibilities such as the programs sketched above.

We do not have much time left before environmental catastrophe overtakes us. We won't find

environmental balance unless we deal with injustice. The current economic system cannot bring either justice or sustainability. The economic system will not change until we change its assumptions.

Unless we begin to think differently, we will not act differently.

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[1] In an April 2009 telephone survey, only 40% of adult Americans favored capitalism over socialism (while the rest were split between favoring socialism and undecided). As socialism is an extreme alternative to capitalism and there are many intermediate possibilities, these results are stunning. http://www.rasmussenreports.com/public_content/politics/general_politics/april_2009/just_53_say_capitalism_better_than_socialism

[2] Richards, Howard, and Swanger, Joanna, *The Dilemmas of Social Democracy*, Lexington Books, New York, 2006.

[3] Smith, Adam, book IV, chap. 2, para. 9; available online at: http://oll.libertyfund.org/220/111910/2313856 .

[4] This was the cost of the party the Sultan of Brunei threw for himself in 1996, see: http://thelongestlistofthelongeststuffatthelongestdomainnameatlonglast.com/expensive145.html .

[5] Richards and Swanger quote anthropologist Helena Norberg-Hodge who has written about the constitutive values of another society: “In Ladakh [a Buddhist region in the mountains of northern India] I have had the privilege to experience another, saner, way of life, and to see my own culture from the outside. I have lived in a society based on fundamentally different principles.” (Richards & Swanger, p 175. “She came to believe,” write Richards and Swanger, “that the life of the Buddhists of Ladakh living on the Tibetan Plateau was superior to life in any Western industrialized nation.” (p 176)