

Capitalism: Wherefore?

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Abstract:

This paper provides a brief overview of economic thinking about the capitalist system. The clash between defenders and detractors highlights the system's strengths and weaknesses as well as possible improvement vistas. As pro- and anti-capitalist theories are examined and compared against real world developments, a number of implications for current-day policymaking are outlined.

Key words: capitalism, social organisation, classical liberalism, Marxism, neoliberalism

By and large, the ideology behind the capitalist system is rather controversial, as it puts forth opposite ideas, besides the adjacent nuances. Actually, with the end of the Middle Ages, the thinking of the *nouvelle bourgeoisie* coexists with a communist-socialist strand of thinking, as illustrated by Thomas Morus (1478-1535) *Utopia* and Tommaso Campanella (1568-1639)'s *City of the Sun*, followed by still others over the next centuries. Bourgeois thinking dominates, of course, with due nuances. Speaking of economic thinking, one should mention a vast bibliography: from the first mercantilists (Stafford, Antoine de Montchretien, Jean Bodin, a.s.o.), classical economists (Adam Smith, David Ricardo, etc.), liberals and neoliberals up to the harshest critics of the capitalist system, like Karl Marx, to half-critics suggesting ways to improve the system going all the way to outright defenders of the system.

In this profusion of ideas a peculiar trait of the system's ideology in the 20th c., but especially after World War 2, stands out: the belief in "popular capitalism" given the ownership of shares by some employees, probably also in order to set it apart from socialism, an altogether opposite economic system, that had appeared in Russia, and collapsed in 1989. In a short while this term undergoes a transformation, and turns into "market economy". Will this term change stop here? Currently the need for a third way of development has become a topical subject.

This change in terms for the system of the ongoing social order seems to occur at ever shorter intervals. Reactions in the economic realm seem to answer a historical necessity. In point of fact, if we observe the evolution of human society, we realize that its organization as an economic system changes, with longer periods giving way to shorter ones. If one compares the time spans of the primitive communal system, slavery, and the Middle Ages, one can assert without fail that societies' historical duration is compressed. The current system can be deemed fairly young historically speaking.

Economic thought from the latter half of the 17th c. has seen radical changes. Both the transition from mercantilism to liberalism, with Adam Smith's invisible hand regulating the economy, and individual freedom posited as a precondition for decision-making for one's self-development, and the transition from classical liberalism to neoliberalism reflect a compression of historical time, and hence changes in society alongside the economic system.

This theoretical framework includes some economists who start addressing the system's imperfections, which was not altogether difficult given the recurrence of crises, the disorder originating in missing out on proportions in the economy; the market no longer regulates itself, Adam Smith's invisible hand no longer intervenes, thus an anti-equilibrium trend appears in economic thinking.

In the 19th c. Karl Marx straightforwardly attacks the system through his work *Das Kapital*. The cyclical development of capitalism cannot go on indefinitely, failure to find the right proportions in the economy and the social crisis aggravate paving the way to revolution. Vladimir Lenin reaches the same conclusions in the context of heightening contradictions in the imperialist stage of capitalism. This inexorable state of affairs is underlain by the need to substitute private property over the means of production with a new property type, a socialist one.

Obviously, political thinking, especially Western one, reacted against Karl Marx. Some social democrats, like Karl Kautsky for instance, amend this theory contending that monopolistic developments and inter-monopoly rivalry will ultimately lead to a unique monopoly, and hence fight cessation, therefore there is no need for a revolution to change the system. Indeed the system has not been altered but not because there is only one monopoly.

In the wake of World War I the German Oswald Spengler (1880-1936) also declared the demise of capitalism in his famous work *The Decline of the West*. Originally a philosopher historian, Spengler contended that history unfolds in a cyclical fashion, with the philosophy of culture going through various stages likened to organic evolution: spring stands for birth and childhood, summer for youth, autumn for maturity, winter for old age and death. Thus, just like the prior seven cultures (Egyptian, Greek, Roman, Chinese, Babilonian, Indian) have vanished so will the Western (Faustian) one. This is naturally a fallacy since it equates the social organism with a living one, and social sciences (history and culture in this case) with life sciences (such as biology). This view was indeed very successful at the time but it was short-lived.

A climax in pro-capitalist economic thinking is John Maynard Keynes (1883-1946). He witnessed the period of the greatest economic depression and the most poignant suffering, hence his firm stance in his famous work *The General Theory of Employment, Interest and Money*: the system can be saved through state intervention, renouncing thus the renowned adage "laissez faire, laissez passer" and attaining the equilibrium necessary for growth. To this end the state needs to heavily invest in the economy, plunge money in big-scale projects employing workforce, which will thus fuel credit and make macroeconomic aggregates take off.

Indeed the economic machine started rolling first in the US where Keynesianism took hold, and subsequently in Europe, especially Hitler's Germany, with its war preparations and the incentives granted for boosting production.

Post-war geopolitics is a turning point, with nation-states concerned with economic reconstruction in the wake of huge devastation. Hardly a few years after the war fascism and dictatorship show up first in Italy, next in Germany.

Joseph Schumpeter is an economist who puts forth a theory opposed to Keynes', yet he is not opposed to the system. His major work *Capitalism, Socialism, and Democracy* (1942) suggests that the future belongs to socialism but, paradoxically enough, this occurs in the absence of state intervention and monopoly-generated benefits. This thinker was famous not just for upholding socialism but also for his concept of 'creative destruction'.

One trait of post-World War 2 economic thinking is that the current social organization is the most adequate, despite its imperfections, which, if removed, can lead to an improved system. Thus, in the context of two coexisting ideologies until 1991, i.e. capitalism and socialism, a new metamorphosis occurs in Western thinking, the theory of system convergence: the new system brings together the good sides of the two aforementioned ones. But this system did not come into being as socialism broke down in 1991.

After World War 2, as the critiques levied against capitalism become more vocal, the system is no longer called capitalism but 'market economy', 'global economy', 'knowledge economy' or even 'open society' in George Soros's view.

Many wonder about the economists' concerns about changing the façade of capitalism. Have its faults disappeared? Are crises gone? Does the same apply to unemployment, poverty and low living standards, gaps between rich and poor countries, state hegemony and rivalry, geopolitics, and strife? Is a change in ideology wanted?

Some thinkers claim these are just beautiful labels grounded in new elements that inevitably show up with the due progress in economy, society in general, and naturally, capitalist society, a number of basics that ideology puts together under the guise of new theories. Do they address capitalism and its essential premise, property over the means of production?

Obviously some economists have thought the matter over but human interests are hard to be overlooked. This very fact was theorized three to four centuries ago as it is inextricably linked to human nature. Even today human nature is explained by referring it to private property. Stripping someone of his possessions is tantamount to tampering with individual freedom. If projected to a national level dictatorship occurs. This position is aptly illustrated by Friedrich August Hayek's famous work *The Road to Serfdom* (1944) and by Milton Friedman's *Capitalism and Freedom* (1962). The former departs from Hitler's nationalist socialism and its dire consequences, which inevitably lead to dictatorship. Strangely enough he contends that socialism could lead to dictatorship in England like in Germany yet believes this is not the case because conditions in the two countries differ. He also mentions centralised planning, a prerequisite of socialism, which prevents individual decision-making.

In *Capitalism and Freedom* Friedman observes that Hayek's prior work *Constitution of Liberty* was overlooked by reviewers for seven years only to be noticed after the Vietnam war shock. Friedman's approach to freedom seems more refined as he links it to the way paternalism is commonly envisioned. Liberty means first and foremost responsibility, 'a free man is held responsible for his own destiny'. That is why state intervention in the economy should be limited, the individual should take his fate in his own hands, the state should decentralize as individualism is incompatible with collectivism. In fact, since economic liberty cannot be separated from political freedom, and man is imperfect, social organisation should induce constraints and pursue the extension of individual freedom.

Recently a new book was published in the US, *The Death of the West*, by Patrick Buchman. Its outlook is pessimistic yet it envisions rescuing capitalism. This work is reminiscent of Oswald Spengler's *Decline of the West*, which saw history unfolding in cultural cycles, with the Western one vanishing just like the prior seven. Buchman instead claims the death of capitalism is due to external causes, emigration to the US. Falling birth rates in developed countries, the US included, the need for workforce and too liberal access cause waves of people from developing countries (Asia, Africa, Latin America) to

invade the US. The West will thus succumb to immigrants without fighting a war, and the children of originally Western parents will shrink to a minority.

In order to deal with this situation, a selective and restrictive immigration policy coupled with preferential employment opportunities is needed alongside a policy for family development and raising birth rates. Last but not least, a set of measures conducive to the development of the West's social values need to be taken. So, the West stands to fall not because of inner causes but rather external ones, and there are policies that one can resort to in order to rescue capitalism.

In the context of 21st c. geopolitics, capitalist ideology advocates the development of economic globalism all the more so since our century is the century of American power, according to George Friedman in his work *The Next 100 Years*. This book predicts a global war between the US, Turkey, Poland and Japan. Even before that Mexico will challenge the US in 2010, and China will break down in 2020.

Under these circumstances the question is if the economic system can take a third way.

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