

CAPITALISM UNDER THE TEST OF ETHICS

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Capitalism has been indicted on many counts. Some counts allege it to be an inefficient, unstable, or self-destructive system for the production of goods and services. Other counts allege that it is in its nature immoral, resting upon, or rewarding, or stimulating the immoral urges of men against their moral tendencies; or that at best it is morally neutral, contrary to the supposed requirement of a good society that its economic system should itself have a positively moral force and character.

We are concerned here with the indictment on moral grounds only. However, we should note that among those who oppose or wish to modify the capitalist system, there are not a few who are ready to concede that it passes the tests of efficiency better than any other system, but find it morally defective or repellent. They are right to maintain that the tests of efficiency are not enough. People will not allow a system to endure which passes those tests only. They wish to feel that it is a just, or at least not an unjust, system, and in this they are right, even if their conception of a just or unjust system may be so inept or erroneous that in practice they reject justice and choose injustice. Hence it is incumbent on capitalism's defenders

to show that it passes the tests of morality as well as those of efficiency.

However, there is a trap in the concept of a just system. When applied to an economic system, the notion of justice or morality needs careful definition. The prescriptions of morality can apply only to those capable of purposive action. Hence only individuals, acting with purpose singly or in groups, can be said to be just or unjust. A group such as a state, a business company, any other corporate body, even a mob, may be said to be just or unjust, because it can act purposively. But a group such as a society cannot be just or unjust because it cannot act at all in the sense that these aforementioned groups can do. A society is a network of individuals, or a system of relationships, not a purposive group of individuals.

Like a society, the economic system called capitalism is a system of relationships. It is a composition of markets, and markets are by definition systems or relationships, not purposive bodies. It follows that we can apply the tests of morality to capitalism only by considering the behaviour of individuals who operate within it, not as a

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system capable in itself of being moral or immoral. Is it compatible with just individual behaviour? Is it more compatible with just or unjust behaviour, or the reverse? Does it nurture or reinforce just or unjust individual behaviour? These are the questions which we need to set if we subject capitalism to an examination in morality.

However, markets must be constrained within a framework of law. Hence their networks of relationships are partly shaped by the purposive acts of the state. Ought we not therefore to apply the tests of morality to the legal framework of capitalism as well as to the behaviour of individuals within it? This is a plausible but possibly misleading contention.

Consider, for example, laws defining misrepresentation in contract. There is a loose sense in which we may say that their purpose is to serve justice. But this is not their essence. Their essential purpose is to prevent the distortion by false statements of the relationship between parties to a contract, and hence to optimise their free and voluntary cooperation. It is for this reason that innocent, as well as fraudulent, misrepresentation may void a contract, though the voiding effect is different in the two kinds of misrepresentation. The aim of the legal framework can only be called justice on the footing that bargains between persons (other than those of diminished responsibility, such as minors) which are free from force, fraud, or a fundamental misunderstanding of the subjects of the bargains, are *ipso facto* just. We may accept this, but it is more accurate to treat the aim of the legal framework as the facilitation of truly free and voluntary bargains between individuals. Thus the framework will properly not interfere with such bargains, even if their objective results may be adjudged by some, perhaps by all, to be unjust. For example, it will not interfere with an offer of water to a man dying of thirst in a desert in return for all his wealth, or to an offer in similar terms by a bystander to rescue a drowning man.

This view of capitalism as a system of relationships between free agents has of course often been derided as fanciful in the extreme. Rather, many have contended, it is a power system. This view is of course a central tenet of Marxism, but it is commonly found in certain circles which are clearly non-Marxist. In fact it is the picture of capitalism as a power system which is the product of fancy; in the Marxist case, of fantasy purporting to lay bare the mechanics of history. It assumes first that only those who own, on a narrow definition, the means of production are capitalists. Secondly it assumes that these capitalists hold and exercise predominant power.

Those who hold these views picture the means of production as factories, plant and machinery, perhaps also land, or as funds which are or can be invested in them. In fact, all who contribute to production, notably the workers, own or control means of production. Certainly, there is a sense in which we may limit the name, 'capital' to tangible goods which produce, but are not themselves, consumable goods, or to funds investible in them, as economists have often done since the dawn of their discipline. But capital so defined is not the only means of production. It is for this reason that 'capitalism' is an inaccurate name for what we know as the capitalist system. The name has fastened upon it on the misapprehension that its character was determined by capital defined in this way. We now accept the name capitalism because it is common usage for what is more accurately described as the free or free-market economy, as in numerous other cases we accept by common usage names of inaccurate inspiration.

The notion that capitalists act as a purposive group is extremely widespread. Yet it runs flatly counter to the obvious facts. Capitalists are in constant competition with each other. The inexperienced observer cannot see this, perhaps because the competition is 'imperfect' or 'monopolistic', to use the economist's terms of art, or perhaps because there may be cartel-like conspiracies within particular industries. If such conspiracies truly existed and could survive erosion by market forces, which they rarely can, the competition would be between industries. Hence the need for those who can think only in terms of power systems to invent the fiction of 'monopoly capitalism'. But the most important aspect of the alleged power system is not simply 'market power' - a vague term

almost as empty of meaning as 'social injustice' - but power over the state and hence over the society in which the state is lodged. Here there is a simple failure to recognise the identity of the capitalists themselves. If the capitalists of the ABC industry induce the state to give them protection against imports, the critics fail to see that importers who thus sustain injury are also capitalists. If the ABC capitalists secure a state subsidy, other capitalists are among those who pay for it. Furthermore if the power system operates through the domination of a nation-state, the adherents of this myth have to envisage capitalism as a national system or as a system of trading nation-states in face of the obvious fact that it is an international system in which nations are interpenetrated by private buying and selling. Then they must fall back on the alleged power of multi-national companies. Even if this power were as factual as is alleged, it would not present the capitalists as the purposive group which they are alleged to be; for there are obvious conflicts of interest between the multi-nationals, if only by reason of differing national origins.

The notion that in the capitalist system capitalists, as narrowly defined, have a preponderant power also runs counter to the obvious facts. In all known capitalist systems power has always been diffused, as is to be expected in a system of voluntary relationships. Even in the high noon of capitalism, when Britain was supposed to be dominated by textile, iron, and railway magnates, and later when America was supposed to be dominated by the 'robber barons', the allegedly dominant power was always constrained by, and usually made subservient to, other powers - landowner power, farmer power, small trader power, worker power, consumer power.

We return therefore to the picture of capitalism as a system of voluntary relationships. Its voluntary character is often not perceived, first because it is thought to be a system of individually self-centred or self-seeking behaviour only. As to the first, it is an elementary error to read compulsion into disparity of bargaining power. If equality of bargaining power were a condition of voluntariness, there would hardly be any voluntary transactions, perhaps none. Even the case of water in return for a dying man's wealth is a voluntary transaction, even though there are few who would not denounce it as unconscionable. Immorality is not the same as compulsion, and a transaction may be immoral even if voluntary.

As to the second, it is important to perceive that all voluntary transactions, selfish or unselfish, egoistic or altruistic, are within the ambit of capitalism. Hence it follows that even group arrangements commonly called socialist, such as various experiments in communal ownership in 18th and 19th century America, and the modern Israeli kibbutz, are part of the capitalist system. If both entry and exit are voluntary, a 'socialist' group or a workers' or consumers' cooperative does not differ in principle from any other partnership or pooling of assets or effort; and this is the case even if the contractual terms of exit are onerous (as in the case of the kibbutz). The essential distinction is between capitalism and all systems of compulsion. All socialist systems of any substantial significance fall within the latter; the reason being that socialism usually needs compulsion for survival. Forms of voluntary socialism, though clearly part of capitalism, usually tend to fade away in competition with other forms of capitalist enterprise.

It is because capitalism is a system of voluntary relationships, that the question whether it is compatible with just individual behaviour presents no difficulty. *Prima facie* it is compatible with any behaviour; moral or immoral, which free agents may enter into, other than breaches of the framework of law. On this footing the system itself is morally neutral. It is a mechanism for the service of our wants. The moral or immoral character of our behaviour is determined by us, not by the system. We may use resources to build a church or a casino; we may buy food to feed ourselves or those more needy than ourselves; in all we do we may seek to satisfy our grosser appetites or our more refined ones. Whatever our lawful purposes, the system will serve them as long as we can find persons willing and able to cooperate with us in free exchange. Hence compatibility with just individual behaviour is not a problem. The question which calls for more extended consideration is whether

the capitalist system nurtures or reinforces just rather than unjust behaviour, or *vice versa*.

We shall see in the course of our exposition that on a true view capitalism is not a morally neutral system. However, let us for the moment proceed on the footing that it is indeed morally neutral in the sense of our preceding paragraph. It is this which for generations has attracted the censure of moralists, preachers, politicians and other types of persons anxious to shape or reshape society to fit the presumed needs of justice. For, it is argued, a morally neutral system must on balance nurture and reinforce immoral behaviour. Men have good and bad instincts. They strive to satisfy good and bad desires. If a system is ready to serve them all without discrimination, it must enable the bad to prevail over the good. They have greater attraction and impetus. Vice beckons more powerfully than virtue, sin more beguilingly than righteousness. Thus moral neutrality, it is argued, is a veil for immorality. Furthermore, the more successful a morally neutral system is in satisfying men's desires, the worse it is. For men prize success. So it is, we were told long ago by Carlyle, that capitalism becomes a "pig philosophy". If it is supremely good at enabling men to acquire wealth and enjoy luxury, wealth and luxury will attract men's admiration. The love of money, root of all evil, will be nurtured and reinforced. Men will learn to know the price of everything and the value of nothing. It follows, we are insistently told, that an economic system should not be neutral. It must positively encourage the good and discourage the bad.

These contentions are plausible and they have captured the minds of many. Yet they fall apart on their first contact with fact. Both pre-capitalist and post-capitalist experience refutes them. For centuries in pre-capitalist Christendom men were insistently urged to lay up their treasure not in this world but in Heaven, to eschew greed and selfishness, to care for the poor, the sick, the widow and the orphan, to treat all Christians, if not others, as brothers. Yet the normal and universal treatment of man by man in every respect was so inhuman by our present standards that we would be unable to picture it to ourselves were it not that we now know it to be matched in the post-capitalist socialist countries of our time. And these socialist countries are conspicuous not merely for their pervasive cruelty and oppression but also for their loud claims to be in the process of building a comradely society free from greed and selfishness!

It is a plain historical fact that the treatment of man by man became conspicuously more humane side by side with the rise of capitalism. This was obvious in the punishment of crime, in the treatment of women, lunatics, the feeble-minded, the lame and the halt, and in attitudes to slavery and serfdom. It was also conspicuous in the treatment of workers, contrary to pseudo-historical propaganda against the early industrial system. Conditions for labour at that time were indeed harsh by our present standards, though only very exceptionally as harsh as they have often been painted. But capitalism had to start from where it started. The Industrial Revolution started with a background of millenia of harsh conditions for all but a favoured few. Industrial capitalism took over from that point, and within two or three generations raised the standard of living of the working masses, and their treatment by employers and others, to levels which could not have been imagined by their recent ancestors.

Furthermore the rise of capitalism was contemporaneous with an explosion of charitable endeavour in the countries which bore the most marked impress of capitalist principle and practice. The charitable activities of the Church in pre-capitalist days, though often admirable by the standards of the times, were insignificant in comparison with the array of schools, colleges, hospitals, orphanages, creches, homes for the aged and other products of 19th century charity, not to mention the provident and friendly societies set up to meet life's hazards by 19th century enterprise.

How could this be if morally neutral capitalism were a veil, or worse a stimulus, for the evil instincts or desires of men? Let us continue for the moment with the postulate of moral neutrality.

Picture a system which positively aims to nurture morality. Suppose, however, that its productive power is miserably low. Inevitably the masses will be poor. Even without oppression life will be short and labour will be cheap. Inevitably the few who are above the masses will treat labour as one naturally treats what is cheap, at least with little regard and most likely with insolence and arrogance. Indeed the masses will offer themselves for such treatment, their alternative being starvation. In such a system the exhortations of preachers and philosophers to the masses will be to urge them to see their situation as ordained by God or Nature and to accept it with resignation.

Now picture a system which is morally neutral but whose productive power is great and grows even greater. Inevitably the masses climb the ladder of advancement. Simple arithmetic ordains that by far the greater part of the wealth produced goes to them. They do not need to sell themselves cheap or to abide by insolence or arrogance. Those who use their services find it necessary, in due course natural and habitual, to treat them with respect. Without being the positive aim of the system, the treatment of man by man becomes humane.

Now suppose that the basic rule of the system which appears to be morally neutral is that transactions are voluntary. As Adam Smith told us, it is then not from the benevolence of the butcher or baker that we expect our dinner. Our purpose is to fill our belly, or perhaps someone else's, but we cannot do so without regard to the purposes of our butcher or baker. Where have we ever found a more compelling or constant force to make us treat our fellow men with respect, however self-regarding our purposes may be? At the same time, except for the few who, if not restrained, could get their dinners by robbery or enslavement, we all get more abundant dinners this way, and butchers and bakers get more abundant satisfaction of whatever they want.

This leads us to the most fundamental change in the human condition that has been wrought since the birth of our species. Men have always wanted to be rich, whatever the precepts of their religions may have been. Until the rise of capitalism the most effective way to become rich was to seize men's bodies or land. Submission to conquest of territory, enslavement, or reduction to serfdom were the common experience of the greater part of mankind. It is true that commercial activity could be interwoven with these, as slave markets and the 16th-18th century slave trade testified, but commerce was rarely, if ever, as wide or safe a road to riches in pre-capitalist times as the seizure of men or territory. Even successful mercantile states, such as Venice and Genoa, needed to mix conquest with trade. Capitalism was the first system in human history to harness the desire to become rich to the peaceful supply of men's abundance. This is the most striking and beneficent change in human affairs of all those produced by the Industrial Revolution.

That it was essentially peaceful is demonstrated by the enormous expansion of trade and investment among the peoples of developed countries at peace with each other, even though pre-capitalist hankerings after wealth by war and conquest survived in the minds of governments long after they had become an anachronism. Furthermore, whereas mercantile capitalism began by principally serving the consumption of the rich, industrial capitalism centred more and more upon the consumption of the poor. The largest fortunes were made no longer from fine silks but from cheap woollens and cottons, no longer from rare spices and perfumes but from tea, coffee, sugar, margarine and the expanding range of other goods for the masses. Wealth arose not from the seizure of persons or property, but from the enhancement of men's consumption and welfare. However, since envy abides powerfully among most of us, the desire of other men to be rich, especially the erstwhile poor, its very success makes it the target for hostility, particularly from intellectuals who can see nothing in it but getting and spending. But men still want to get rich. The alternative to serving other men's wants is seizing power over them, as it always has been. Hence it is not surprising that wherever the enemies of capitalism have prevailed, the result has been not only the debasement of consumption

standards for the masses but also their reduction to serfdom by the new privileged class of socialist rulers.

But is capitalism morally neutral? We have noted above first that as a system of relationships it cannot be moral or immoral in the sense that a purposive group can be, and secondly that as a machine for the service of all wants other than those in breach of its legal framework, it does not distinguish between transactions which may have a moral or immoral content. Nevertheless it is incorrect to describe it as morally neutral. If its essential characteristics on balance positively nurture or reinforce moral or immoral individual behaviour, it is a moral or immoral system in its effects.

We have already noted that the voluntary nature of capitalist transactions propels us into respect for others. We shall need to return to this when we examine the most fundamental of all features of the moral behaviour of individuals. Here let us note that there are certain other essential features of capitalism which tend to propel us into moral behaviour.

First, there is the institution of private property, basic to the whole system. *Prima facie* it is consistent with egoistic or altruistic, honourable or dishonourable behaviour, or any blend of them. Yet on balance it is a powerful force for moral training. Every time we treat property with diligence and care, we learn a lesson in morality. We see this in the behaviour of the good husbandman, who has traditionally aroused our admiration. We see it also as we look back on the attitudes of those imbued with what used to be called the Protestant ethic, though in fact it was also to be found in non-Protestant societies where work, saving, and enterprise were admired. The reason for the moral training of private property is that it induces at least some of its owners to treat it as a trust, even if only for their children or children's children; and those who so treat it tend to be best at accumulating it, contrary to popular notions about the conspicuous consumption of the rich, the incidence of luck or of gambling. Contrast our attitudes to private property with our treatment of public property. Every army quartermaster, every state school administrator, every bureaucratic office controller, knows with what carelessness and lack of diligence most of us deal with it. This applies everywhere, but especially in socialist countries where most property is public.

Secondly, there is the sanctity of contract. There are many who have no respect for it. But the thrust of the capitalist system is to favour those who keep their contracts and to hamper those who do not. Sanctity of contract is one of the most important elements in the cement which binds a civilised society together, and it tends to arise naturally in a society where private property is respected. At the same time it has an elevating effect on men's character.

Sanctity of contract tends to be nurtured by capitalism not merely between individuals but also between states. *Pacta sunt servanda* is a venerable principle, and it applied to states as it did to individuals. But it was only with the development of ideas in international law which were of the same provenance as the ideas which produced the rise of capitalism, that states gave it a serious, though admittedly incomplete, measure of respect in their dealings with each other. However, the more striking change took place in the dealings of states with their citizens. It is obvious that in both pre-capitalist and post-capitalist societies, states have shown little respect for the rights of their citizens or for standards of probity even in contractual dealings with them. This is displayed most prominently in the history of money. In the centuries-old story of the debasement of money by pre-capitalist monarchs and modern socialist and semi-socialist governments, there is only one substantial interlude when states eschewed the expropriation of their citizens by the misuse of such power as they had over the monetary system. This was in the century from the end of the Napoleonic wars to the outbreak of World War I, the great century of capitalism. Then it was that only states on the fringe of the civilised world tended to default on their loan obligations or to defraud their citizens by the debasement of the currency.

Thirdly, there is the work ethic. Much derided by superior persons who see themselves as the champions of the life of culture, or elegance, or contemplation (and by British and American workers who

console themselves for competitive failure by calling Japanese workers mere workaholics), it is in fact a prime agent of moral training and character elevation. To know that we must work for what we want, that there are few free goods in the world, that almost everything has a cost which must be met, is to understand the fundamental truth of our situation as human beings. Under capitalism this is brought home to everyone. In a world of collectivism everything still has a cost, but everyone is tempted, even urged, to behave as if there is no cost or as if the cost will be borne by somebody else. This is one of the most corrosive effects of collectivism upon the moral character of the people.

The morality inherent in the institution of private property, and embodied in respect for the sanctity of contract and in the work ethic is cogent evidence for the positively moral effects of capitalism upon the behaviour of individuals. But there is something that goes deeper.

Consider the ancient command that "thou shalt love thy neighbour as thyself". Taken literally it is not the clearest or the most unchallengeable of rules of behaviour. It is not certain that human beings are able to love others as themselves, and at the very least there are difficulties about the identification of our neighbours. If all men are our neighbours, we have a problem distinguishing between those near and distant in relationship. If we have to love all men as ourselves, we have to do the impossible and love our near neighbours more than ourselves. Or if we love the latter as ourselves, then we can only love those others in the wide world less than ourselves. Nevertheless tempered with a due infusion of common sense, we can accept the commandment as our basic working rule. If so, how does capitalism's effect upon individual behaviour stand in relation to it?

To love one's neighbour as oneself is almost always construed to mean to heal the sick, to succour the poor, to relieve human distress of all kinds. No doubt this is what a good man does. Yet it misses the most fundamental element in loving one's neighbour as oneself.

What does such love mean? It must mean that one wishes one's neighbour to have what one most values for oneself. What do we most wish for ourselves? It is not material satisfaction, much as we prize it, for it can be obtained in situations which we would indignantly reject. A slave, a prisoner, or a conscript may have all essential material satisfactions. When we say that we want these satisfactions, and in the goodness of our hearts we want others to have them equally with ourselves, we omit an unspoken assumption, namely that we are free to seek them in accordance with our own freely chosen purposes; and that if we provide them for the weak and needy, it is not on condition that they become our slaves or serfs.

This is the key to the commandment to love our neighbour. What we want above all for ourselves, and which therefore we must accord to our neighbour, is freedom to pursue our own purposes. It is only when this is assumed that we talk about the primacy of food, clothing, shelter, and other material benefits. As a corollary to this freedom we want others to respect our individuality, independence, and status as responsible human beings. We do not want to be treated as children or wards of our benefactors, not to mention slaves, serfs, prisoners or conscripts, however generous or indulgent the treatment may be.

This is the fundamental morality which capitalism requires and which it nurtures. It alone among economic systems operates on the basis of respect for free, independent, responsible persons. All other systems in varying degrees treat men as less than this. Socialist systems above all treat men as pawns to be moved about by the authorities, or as children to be given what the rulers decide is good for them, or as serfs or slaves. The rulers begin by boasting about their compassion, which in any case is fraudulent, but after a time they drop this pretence which they find unnecessary for the maintenance of power. In all things they act on the presumption that they know best. Therefore they and their systems are morally stunted. Only the free system, the much assailed capitalism, is morally mature.