

Capitalism: Theory

By Houman Shadab

1. What is capitalism?

Laissez faire capitalism means the *complete* separation of economy and state, just like the separation of church and state. Capitalism is the social system based upon private ownership of the means of production which entails a completely uncontrolled and unregulated economy where all land is privately owned. But the separation of the state and the economy is not a primary, it is only an aspect of the premise that capitalism is based upon: *individual rights*. Capitalism is the only politico-economic system based on the doctrine of individual rights. This means that capitalism recognizes that each and every person is the owner of his own life, and has the right to live his life in any manner he chooses as long as he does not violate the rights of others.

2. What is capitalism's essential nature?

The essential nature of capitalism is social harmony through the pursuit of self-interest. Under capitalism, the individual's pursuit of his own economic self-interest simultaneously benefits the economic self-interests of all others. In allowing each individual to act unhampered by government regulations, capitalism causes wealth to be created in the most efficient manner possible which ultimately raises the standard of living, increases the economic opportunities, and makes available an ever growing supply of products for everyone. The free-market operates in such a way so that as one man creates more wealth for himself, he simultaneously creates more wealth and opportunities for everyone else, which means that as the rich become richer, the poor become richer. It must be understood that *capitalism serves the economic self-interests of all, including the non-capitalists*.

Contrary to widely held beliefs, capitalism is not a system which exploits a large portion of society for the sake of a small minority of wealthy capitalists. Ironically, it is actually socialism that causes the systematic exploitation of labor. Since the socialist state holds a universal monopoly on labor and production, no economic incentive exists for the socialist state to provide anything more than minimum physical subsistence for the workers except to perhaps prevent riots or revolutions. Exploitation is inherent to the nature of socialism because individuals cannot live for their own sake, rather, they exist merely as means to whatever ends the socialist rulers -- the self-proclaimed spokesman of "society," may have in mind.¹

3. What are the philosophical underpinnings of capitalism?

All political systems are ultimately the expression of some underlying philosophy. For example, Marxian socialism upholds that man is a collective entity shaped by economic forces beyond his control whose greatest good is to serve the ends of "society." Capitalism, however, is implicitly based upon a world view which upholds that man's mind is competent in dealing with reality, that it is morally good for each person to strive for his own happiness, and that the only proper social arrangement for men to live under is one in which the initiation of physical force is banished. This is the ideological basis upon which the United States of America was implicitly founded. The importance of recognizing the philosophy upon which capitalism -- and America rests upon, lies in the fact that no social system can be properly understood or defended apart from its broader philosophical framework.

In regards to morality, capitalism is the only moral (meaning pro-human-life) social system because it safeguards a human's primary means of survival: his mind. Through upholding individual rights, capitalism recognizes the fact the each and every human being must use

his own mind to grasp reality and act accordingly to better his own life. Capitalism is the only political system that is based upon man's true nature as a being who possesses the faculty of reason -- capitalism is the only system that recognizes that human beings can think. Indeed, individual rights and capitalism not only protect the individual person and property of each human being, but most importantly, they protect the *individual mind* of every human being.

Historically speaking, capitalism has been claimed to be consistent with philosophies such as utilitarianism, social Darwinism, and even fundamentalist Christianity. However, these philosophies are in fact antithetical to the true nature of capitalism because they subordinate the good of the individual's life on earth to some "higher good." In fact, the only philosophy that is completely consistent with the theoretical requirements for understanding and promoting capitalism is the philosophy of [Objectivism](#).

4. What is the role of government in a capitalist society?

The only purpose of government would be to protect its citizens from force or fraud.

The protection from force, that is, the protection of individual rights, would be achieved through the use of a police force to protect the rights of citizens at home; a military, to protect the rights of citizens from foreign aggression; and a court system to enforce contracts and settle disputes between citizens. Since rights can only be violated by initiating force, the government would only use force in *retaliation* of those who initiated it.

The greatest aggressor against man -- the greatest spiller of human blood, has been the various governments that man has adopted throughout history. Because the government holds a legal monopoly for the use of force, the crimes committed by individuals acting on their own behalf are trivial compared to the crimes, tyrannies, and wholesale barbarism that governments are responsible for. This is why it is crucial that governments be limited in their ability to use force by a constitution based upon individual rights. *That* was the key insight of the Founding Fathers which made America freer than any other nation on earth.

Any other function of government than those listed above, no matter what its intentions, would necessitate the violation of rights by initiating the use of force against the people it is supposed to protect. For example, compulsory tax-supported education forces some people to pay for the schooling of others for whom they would not have voluntarily paid for.

5. What does capitalism have to do with freedom?

Everything. Capitalism the only system in which freedom and liberty can really exist.

Freedom means the absence of physical force, including all forms of fraud. An individual is free when force is not being initiated against him, which means that there is only one source of unfreedom for any individual: other men. That is, a man's freedom can only be infringed upon when another person or group of persons initiates the use of physical force against him. The fact that an individual is unfit to run a mile in under four minutes or too poor to buy food is not a violation of his freedom. Why? Because in both of these cases no one is forcibly stopping the individual from attaining his ends. However, the fact that an individual cannot start his own electric company *is* a violation of his freedom. Why? Because in this case his actions are impeded by the use of force -- the government's legal monopoly on utility companies prevents him from starting his own electric company through the threat of force. Freedom is only a negative, it imposes no positive constraints on other people's actions. In a free (or capitalist) society all men may act as they choose as so long as they do not infringe on the freedom of others -- by violating their rights through force. Subsequently, it is only a government limited to protecting individual rights that fails to

violate the freedom its citizens. Since capitalism upholds individual rights as absolutes, capitalism upholds freedom as absolute.

All non-capitalistic societies force some men to live at the expense of others. Whether you are forced to live, in part or in whole, for the sake of God (as in a theocracy), "the underprivileged" (as in the welfare state), or the latest sadist in power (as in a dictatorship) does not matter, it is only the fact that some individuals are violating the freedom of others, not the method by which they do it, that matters.

6. Is capitalism a just social system?

Yes.

In fact, capitalism is the complete embodiment of social justice. In social or political context justice means that every person gets no more, and no less, than what he gains through voluntary association with other men. A capitalist society is a just society because all individuals are considered equal under the law. Capitalism recognizes that it is just for a man to keep what he has earned and that it is unjust for a man, or group of men, to have the right to what other people have earned. Since all people must live independently under capitalism, all of the material values that a person acquires must be earned. Thus, the expression of social justice under capitalism is that what a man earns is directly proportional to what he produces, with no antitrust laws or progressive income taxes stifling his achievement for the sole fact the he did achieve. All other forms of government, such as the welfare state, institutionalize injustice by legally expropriating the property of some men and giving it to others.

Many people have trouble accepting that capitalism is a just system because of the existence of economic inequality. It is observed that famous celebrities and sports stars have very large incomes for work that is perceived as trivial, and that many hard working people make incomes which pale in comparison for jobs that are perceived to be a

Capitalism: Theory

greater benefit to society. What people must realize is that it is perfectly just for a superstar athlete, even with little or no education, to make a hundred times the income of a scientist who has a Ph.D. and works much longer and strenuous hours. Why? Because the athlete creates enormous profits through ticket sales and product endorsements whereas the scientist generates very little revenue through his research. That is, each of them deserves what they *earn*, and what they earn is the result of how much wealth each of them creates (Incidentally, this is not to say that the athlete is morally superior to the scientist because he is wealthier). Since each man has the right to the product of his labor, it is completely just for the disparity in incomes to exist, and the only injustice to occur would be or the government to take money from the athlete and give it to those who supposedly deserve it on the basis of their "need."

7. What is a capitalist?

From a purely economic point of view, a capitalist is a person who buys in order to sell for profit. However, the productive role that capitalists and businessman serve cannot be overstated.

Far from being exploiters, the true function of capitalists and businessmen "... *is to raise the productivity, and thus the real wages, of manual labor by means of creating, coordinating, and improving the efficiency of the division of labor.*"² By continuously improving the efficiency of labor, capitalists and businessmen are responsible for raising wages and creating employment which serve to raise the standard of living of everyone. Furthermore, by funding research and capital investments, corporations and capitalists make possible all of the modern day conveniences, from laser surgery to orchestra halls,

that most people take for granted every day. In fact, since capitalists make available so much life-saving and labor-saving technology to so many people, they should be regarded as some of mankind's greatest benefactors. A few capitalists and businessmen have done more to help mankind live a more enjoyable life (indeed, most people would not even be alive today if it weren't for capitalists) than all of the humanitarians, social workers, and clergy men combined. If one considers human life a value, then they should regard capitalists as one of its greatest promoters. (If Mother Theresa really wanted to help people, she should try and accumulate enough capital to start a factory in a poor nation and employ thousands of people who would not have jobs without her.)

In a more fundamental sense, a capitalist is anyone (from a janitor to a millionaire) who lives solely by his own effort and who respects the rights of others. The best symbol of a capitalist is the *trader*. That is, the man or woman who only deals with other people on a voluntary basis. A capitalist is not an "exploiter" nor necessarily a "greedy" individual.

8. How is democracy related to capitalism?

An absolute democracy, which means unlimited majority rule, is incompatible with capitalism and freedom. This is so because capitalism rests on the principle of individual rights. In an absolute democracy, rights would really have no legitimate meaning because they could always be voted away in the next election. Individual rights must be consistently upheld if capitalism is to be achieved, and if the majority may do whatever it wants regardless of the rights of the minority, capitalism cannot exist, not even in principle.

When most people think of "democracy" they usually mean a *constitutionally limited* democracy. The function of a limited democracy is to decide who held political power and how that power is specifically exercised (such as how many policemen or judges are needed), but *what* that power is should be strictly defined and limited in the constitution. (This is basically the original American system.) In a proper capitalist nation, a constitution based upon individual rights would be necessary to limit the actions of its citizens and the government. Under capitalism, the majority would never be able to vote to violate the rights of the minority, no matter how large the majority or how small the minority. Individual rights would not be subject to vote.

9. What is the opposite of capitalism?

Statism, in any form.

Statism is the concentration of power in the state at the expense of individual freedom. Capitalism is the only system which protects individual rights and freedom, but the variety of political systems which violate individual freedom are numerous: socialism, communism, fascism, Nazism, absolute monarchies, military dictatorships, theocracies, or the welfare state are all systems which infringe upon individual rights, which means they *institutionalize* the initiation of force against their citizens.

It must be realized that there are only two fundamental political philosophies: those who are for freedom and individual rights and those who are against them. The types of political systems who are against freedom and individual rights are numerous, for there are many ways to violate the rights of man, but there is only one political-economic philosophy which upholds that the rights of man are absolute and immutable -- capitalism.

10. Is socialism ideal?

In order to answer one must first ask: What is an ideal and what purpose does it serve? An ideal is that which is held as a standard of measurement, or of excellence. As a standard, it is used to determine the merits of any system put forth to a specific end. A social system is a code of laws which men observe in order to live together. The measurement of social systems consists of the appraisal of, the relationships between men and the laws and

institutions which govern the forms of association. In order to measure a social system, one must hold to an ideal, i.e. have a standard against which performance can be gauged. There is only one such possible standard: *man's life*.

A social system must be measured according to its ability to sustain each man's right to life, i.e. its recognition of man's nature and as such its defense of the requirements of a conceptual consciousness. Recognition of man's right to life means the recognition of the necessity of the freedom of man's mind, with reason as his sole means of survival, and of the freedom of man's body, by which the products of the mind are brought into reality. Therefore, an ideal social system must respect the nature of man, and provide a context in which the defining moral principle is the freedom to sustain one's own life by voluntary, uncoerced choice. Such an ideal system exists, if only in the minds of men, but it's name is *not* socialism.

Socialism holds that man is not an end in himself, and that he must sacrifice his own convictions for the sake of the "greater good" of the collective. Socialism requires the sacrifice of the individual mind, and hence denies the sole means of survival of man and in fact his very nature as a rational being. Such a system cannot honestly be held as an ideal.

11. Who are the defenders of capitalism?

There are two thinkers who stand as virtual twin towers in the history of pro-capitalist thought, namely the novelist-philosopher [Ayn Rand](#) and economist [Ludwig von Mises](#).

The importance of Rand's ideas to the furthering of capitalism cannot be overstated, for she gave capitalism what it has badly needed: a *philosophic* defense. Rand recognized that the supremacy of reason and the morality of egoism are the indispensable philosophical foundations upon which capitalism is based. In particular, her connection of capitalism to individual rights, and her recognition that individuals have the moral right to live for their own sake makes her philosophy of [Objectivism](#) of utmost importance for a thorough and consistent defense of capitalism.

The other tower of pro-capitalist thought is the most prominent member of the Austrian school of economics, and the greatest economic thinker of all time, Ludwig von Mises. (The Austrian school has been the leading school of pro-capitalist economic thought since 1871). Mises's identification of capitalism as being the system which benefits all, his refutation of virtually every accusation made against capitalism (such as the claims that capitalism leads to exploitation and depressions), and his proof of the economic impossibility of socialism rank him the as other great defender of capitalism of all time. Other major pro-capitalist economists are the members of the Austrian school such as Eugen von Bohm-Bawerk and Carl Menger, the French economist Frederic Bastiat, and members of the British classical school such as Adam Smith and Dave Ricardo. Furthermore, economists and political philosophers such as George Reisman, Henry Hazlitt, Tibor Machan, John Locke, and the Founding Fathers of the United States, and less consistent defenders such as Milton Friedman, F.A. Hayek, and Murray Rothbard all constitute important names in the defense of capitalism.

12. How is theory related to practice?

The Capitalism FAQ is divided into two parts: Theory and Practice. This is not to suggest a dichotomy between the two. Theory does not exist *qua* floating abstraction, without reference or basis in reality. It is not an "essence" apart from cognition. Theory is *human* theory, and it is theory about something: existence. As such it is a reflection on the nature of existence, the nature of man, and the relationship between the two. Practice, or action, is *human* action. It is volitional, i.e. chosen (among alternatives), directed at a specific end, and based on a value judgment(s) of the facts of reality.

Political-Economic theory is the body of fundamental principles underlying the science of human action. Theory is abstraction. It is a process of identification; an attempt to describe perceptual data by means of a conscious focus of the human mind. To identify the ideal economic system, one must observe and understand what *is*, and what *man* is. Obviously then, theory is not an object (idea) detached from its subject (man). If a theory is correctly formulated, it is eminently practical. After all, if theory has nothing to do with reality, i.e. cannot be "put into practice", then how does one evaluate whether it is good or not? Ideas are not apart from those who think them. Actions are not apart from those who act. And actions are implementations of ideas. One may defend capitalism on the basis of its practicability as long as one is aware that the reason "it works" is *because* it is good theory.

** Το Civilitas.GR και ο «ΔΗΜΟΣΙΟΣ ΥΠΑΛΛΗΛΟΣ» προτίθενται να απομακρύνουν το κείμενο αυτό από την ιστοσελίδα τους, εάν η αναδημοσίευσή του προσβάλλει κεκτημένα πνευματικά ή εμπορικά δικαιώματα (info@civilitas.gr)*