

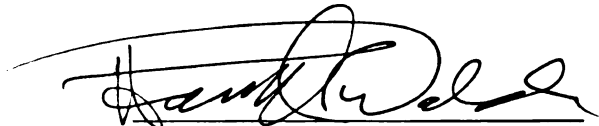


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TOWARDS A BETTER UNDERSTANDING OF CAPITALISM

By

Edward George Weiss

A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

College of Arts and Letters
Interdisciplinary Program

1985

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ABSTRACT
TOWARDS A BETTER UNDERSTANDING OF CAPITALISM

By
Edward George Weiss

The capitalistic economic system is often attacked, often defended. Since capitalism is so widespread an economic system, we will benefit from a better-than-usual understanding of it. This dissertation analyzes the capitalistic economic system in order to further that better-than-usual understanding and also to allow us to more adequately judge it. Since adequately judging anything always requires criteria by which to judge, the discipline that judges economic systems -- economic systems analysis -- and the criteria it employs will also be analyzed.

In Section I, the reasons for the claim that capitalism is the superior economic system are given; the history of capitalism is reviewed; and the assumptions of the "standard" model are listed and critiqued. It is concluded that capitalism does not accomplish what is claimed for it; that capitalism has never been what it has been said to be; and that the assumptions of the "standard" model contradict both themselves and the results obtained by the system in the real world.

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Section II concentrates on the criteria most often used by economic systems analysts when judging an economic system. In particular, the criteria of economic growth and efficiency are defined and analyzed. It is concluded that the criteria themselves are in dire need of being analyzed before they are used to judge anything.

Also in Section II, since all economic activity takes place in the real world, the political backdrop for that activity is examined.

Most questions asked about capitalism are based on a mistaken or confused understanding about what "capitalism" is and what it is intended to accomplish. In section III, questions which need to be answered as prerequisites before the more common questions are posited are listed. The prerequisite questions are based upon the analysis in the preceeding sections and are concerned with both capitalism in particular and economics systems analysis in general. In this last section, several suggestions are proposed which, if heeded, might go a long way in bringing the practice of capitalism more into line with its stated aims and ideology.

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INTRODUCTION

Capitalism is widespread: Some variation of it is present in a large part of the world. Thus, it is an important economic system and needs to be fully understood; but it is not.

Much has been said and written about capitalism, both favorable and unfavorable. A major purpose of this dissertation is to wade through the waters of propaganda and ideology in the hope of developing a clearer understanding of the system. Further, economic systems analysis as presently constituted isn't adequate either. The first section of this dissertation will be an analysis of capitalism; the second section will be an analysis of economic systems analysis; the concluding section will present possible solutions to some of the difficulties in both capitalism and economic systems analysis.

If a society is to exist in any meaningful way, its members must share an ideology -- i.e., common beliefs about how the affairs of the society should be conducted. Frequently, however, a society has another set of values which does little more than justify "what is," regardless of whether "what is" is justifiable. This additional set of values almost always conflicts with the other beliefs. For example, competition is a major tenet of the capitalist ideology, yet it seldom exists in fact. From an economic

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perspective, rationalization of this state of affairs usually does little more than justify the current mode of property ownership and distribution of wealth and income.[1]

If capitalism is really to be understood, these conflicts must be exposed to the full light of day. We must examine elements within the system which are irrational and inconsistent with its stated aims. What usually is presented as a positive model of capitalism may not be very positive in reality.

In this dissertation, the term "positive" is defined as follows. Basically, "a positive [model is] a body of systematized knowledge concerning what is; a normative [model is] a body of systematized knowledge discussing criteria of what ought to be." [2] In other words, the positive is an unbiased description of what is; the normative is a set of value judgments.

For a model to be a positive one, it must be the result of a well-reasoned and complete argument. Further, its assumptions must be consistent with reality and must not be normative. Finally, the empirical results from applying the model must not contradict the model.

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NOTES: INTRODUCTION

1. Randall Bartlett, Economic Foundations of Political Power (New York: Macmillan Publishing, 1973), Chs. 17 & 18.
2. John Neville Keynes, The Scope and Method of Political Economy (London: Macmillan Publishing, 1891), p. 34.
(Emphasis in original.)

SECTION I

CHAPTER 1

CAPITALISM: DEFINITION

Definition

"Capitalism is one of those terms frequently used but seldom defined, and even less frequently understood. Exactly what does it mean?"[1] Many people, myself included, also would like to know "exactly" what is meant by "capitalism." Ascertaining the definition of capitalism, therefore, is one of the major aims of this section.

Understanding a difficult to define term is hard enough, but understanding this one is even more difficult because it is one which is laden with ideology. It is used by both its supporters and its attackers, and often, they don't mean the same or even similar things; each intends something entirely different from that which is intended by the other. Therefore, it is sometimes very difficult to determine exactly which meaning of capitalism is being used in any given instance.

But, even when the user's ideological position is known, it is difficult to ascertain what the user really means. Everyone seems to use the term differently. "Exactly what does it mean?"

Moreover, it is even difficult to understand what is meant by the term when it is used by its proponents. One would think that a proponent of something would wish to be as clear as possible about what one is proposing. Unfortunately, this hoped-for clarity seldom exists where

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capitalism is concerned; it is all too often the case that different advocates, even though basically on the same side of the ideological question, have different perspectives. The result is that different proponents will emphasize or deemphasize different aspects of capitalism.

This is almost always because each has different self-interests to protect or to promote, this also accounting for their different perspectives. Acting to protect or to promote one's self-interests should be expected: a basic tenet of capitalism is, after all, to act in this manner. But different people acting to protect or to promote different self-interests makes it difficult to know what any particular supporter of capitalism means when that person uses the term "capitalism" unless one first knows what that person's self-interests are and what position that person is attempting to promote.

It is usually just as difficult to know what the term means when it is used by detractors of capitalism, because there are many such detractors and those detractors come in many different varieties. It should be obvious that they usually use the term pejoratively. Knowing this helps somewhat, but usually not much -- even when users are erudite, because they, like their capitalist counterparts, also have ideologies and self-interests to promote. Further, their ideologies and self-interests, like those of

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the system's advocates, often differ greatly from one another.

A still different situation is one in which the term is used, as it always should be, in a more positive manner. This is the way that some, but by no means all, analysts and critics of capitalism use the term. That the term "capitalism" is sometimes used positively and sometimes normatively is a distinction which further complicates the analysis. In any case, arriving at a positive definition of anything is not easy. But arriving at a positive definition of capitalism, or at least as positive a definition of capitalism as is possible, is, nonetheless, an aim of this work.

It is quite unlikely that everyone will agree with whatever definition is lastly settled upon in this work. That this disagreement is probable helps make clear the difficulties faced when attempting to define capitalism. Adequately defining capitalism involves much more than just the straight forward act of defining; it also requires both perspective and judgment. One ingredient, perspective, hardly ever will be the same for the many, let alone for everybody.

Readers, however, should be able to see for themselves why that definition lastly settled upon is arrived at. If the reader thinks that that final definition

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could be more positive, or if he or she disagrees for any other reason, at least he or she will be able to analyze the reasoning process used in arriving at it. This is more than can be said for most such definitions.

In order to develop a comprehensive understanding of the definition of capitalism and the capitalist model, many mainstream economics texts, representing all levels of college and university instruction, were reviewed.[2] For all practical purposes, none of them, regardless of level, did anything other than to state a definition of capitalism and present assumptions of the model. They didn't present any theoretical analyses, though one might expect that they should. This work will do that required theoretical analysis.

Representative of most definitions found in the several economics texts reviewed is the following. Capitalism is "an economic system based on private ownership of productive resources and allocation of goods [and resources] according to the signals provided by the free markets,"[3] or some other definition approximate to it. Notice that profit is not even mentioned. All the texts refer to profit somewhere or other, of course, but not necessarily in the definition itself. Since profit is the primary, if not the sole, goal of the capitalist, the omission is interesting, to say the least.

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A few texts, however, do in fact mention profit, but they are only a small number. For example, one text says: "Capitalism is a system of economic organization characterized by private ownership of the factors of production and their operation for profit under predominantly competitive conditions." [4] Another definition is: a "form of economic organization in which the means of production are privately owned and operated for profit and where freely operating markets coordinate the activities of consumers, businesses, and all suppliers of resources." [5]

Some texts do not give a definition of capitalism at all; they just describe it or present its philosophy. For instance, "Capitalism has many names. It's called the free enterprise system or the private enterprise system or the competitive free enterprise system or the laissez-faire system." [6] Or: "The philosophy of capitalism is the philosophy of the market process -- the philosophy of Adam Smith's laissez faire -- of 'consumer sovereignty and the invisible hand.' It's the philosophy of individual freedom, of private property, of rewards for productivity. The idea is that if people and businesses are left free to make their own choices, everything will come out better for everybody." [7] The claim that "everything will come out better for everybody" is an important one and needs to be attended to; that will be done later.

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The definitions cited above are taken from introductory texts, but even most of the more advanced texts, i.e., those texts used at the intermediate and graduate levels of instruction, do not attempt to define or describe capitalism.[8] Apparently, the authors of these texts just take both a 'standard' definition of capitalism and their readers' knowledge of it for granted.

Only one advanced text among those reviewed gives any attention at all to a definition of capitalism. Though its definition is done well enough, the book does not make any mention of a previously taught "simplified version," nor does it present any analysis. It merely puts forth the nature of capitalism, though at the more advanced level that one would normally expect from an advanced text. "Capitalism as a type of economic society [not system -- the definition thus includes a political component as well as an economic one] is characterized by private ownership of the factors of production and by private initiative, guided by the profit motive, in the conduct of production." [9] This text, even though it is mainstream and does not do any analysis, at least addresses the question of profit, but its definition is not essentially any different from the definitions given in the introductory texts. It is just a bit more sophisticated.

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It has been said that the partial equilibrium model is but a "simplified version taught to many undergraduates [which is] obviously incomplete and inconsistent." [10] Though true, it is surprising to read this statement because experience shows that this "simplified version" is believed and defended by all too many economists, including those in colleges and universities. Maybe the reason for the definition's inadequacy, or one of them, is that neither the intermediate nor the advanced texts attempt to analyze or even clarify the "simplified version".

Among all the texts reviewed, regardless of the level, the best definition given is that capitalism is "an economic system oriented toward the accumulation of capital (or generalized, abstract wealth), coordinated by a market system in which land, labor and capital have become 'factors of production.'" [11] It is the best definition because it considers the greater number of factors. It states the purpose of capitalism as well as stating what capitalism is and how the providers of the factors of production, particularly labor, are viewed: as commodities, i.e., "object[s] outside us, a thing that by its properties satisfies human wants of some sort or another." [12] They are things that are bought and sold.

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It appears that all the definitions of capitalism given in these texts, except the last one, are attempting to hide the real end of the system -- i.e., the accumulation of great wealth and the power that results from the possession of that wealth. The power that results from possessing great wealth is not, of course, directly mentioned, but power is a result of both great wealth and the system that allows that great wealth to be accumulated. All the definitions mention either the market system or competition, which implies a market; only some refer to profit. The last definition quoted is the only one that does not launder the definition in such a way that capitalism's primary goal, control of great wealth, is not readily apparent. This is interesting particularly if it is remembered that the reason most often given for adopting capitalism, or continuing with it if already adopted, is that it is the system that best serves society. Again, the claim that "capitalism is the system that serves society best" is a claim that will be attended to later.

Milton Friedman is one of the few advocates of capitalism who realize, or, in any case, admit the problems that accompany this concentration of wealth and power; and Friedman appears to fear it. He correctly sees the accumulation of great wealth, and the power that results from that accumulation, as socially undesirable and in

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conflict with the usual arguments given for the capitalist system. However, Friedman mistakenly places the blame for the conditions that allow the accumulation of vast wealth on government interference with the market rather than on the capitalistic economic system itself.[13] Later, it will be shown that the capitalist economic system itself is where the responsibility really lies.

In any case, Friedman uses the term "competitive capitalism"[14] as opposed to just "capitalism." It appears that he does this because he sees a difficulty with the use of the unadorned word "capitalism," though he does not explicitly say so. This apparent difficulty arises for good reason. Capitalism, as it exists, is not competitive, and almost everyone agrees that competition is one of the conditions which must exist if capitalism is to be an acceptable economic system. If it is not competitive, there will continue to be a severe contradiction between its ideology and its reality. One or the other must be changed if the conflict is to be eliminated.

Incidentally, Friedman does not define capitalism in any of his seminal works either.[15] As do all too many advocates of the capitalistic economic system, he just assumes that everybody accepts some 'standard' version.

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Based upon what has been learned thus far, the definition of capitalism[16] that seems to be emerging is: the economic system in which private individuals usually, though not always, use private property -- i.e., large and expensive capital equipment -- and labor power, usually purchased from others, to produce goods and services. Labor is treated solely as a commodity, traded along with other factors of production in a free market, just like the consumer goods produced by those factors. Further, all production and trading is done for the sole purpose of making a profit. That profit is accumulated as an abundance of wealth, which is then used as additional capital in the production process: Luxury is no longer the end of possessing wealth. All this economic activity, according to theory, takes place under predominantly competitive conditions and without government interference.

There is no one of these conditions which describe capitalism; it is their combination, though the major attribute appears to be profit. Little of what takes place under the capitalist mode of production would take place if profit were not forthcoming. This is what Marx meant when he said that capitalism would not produce anything simply because it had value in use; it also would have to generate a profit.[17] This should not be construed as an attack upon the profit motive; rather, it is an analysis that is

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necessary if a reasonably accurate definition of capitalism is to be obtained.

All but the last two of these definitions or descriptions of capitalism, even though they are all largely incomplete and inaccurate, are quite similar to one another. Even though they are largely incomplete and inaccurate, they still are given to students, supposedly so that they will know what they are studying. Since they don't, more needs to be done.

NOTES: CHAPTER 1

1. Edwin Mansfield, Economics: Principles, Problems, Decisions (New York: W. W. Norton, 1974), p. 40.

2. The texts were not selected in any special way. Many of them simply were those in my library because I teach economics; others were in libraries of friends who were economists. To ensure a good cross-section, I selected texts from the Michigan State University library. While this sample may not be systematically representative of current texts, it is at least tolerably meaningful because it represents as many texts as were available.

3. James O. Gwartney and Richard Stroup, Economics: Private and Public Choice (2nd ed.; New York: Academic Press, 1980), p. 812. For similar definitions, see: Edwin G. Dolan, Basic Micro Economics (3rd ed.; Chicago: Dryden Press, 1983), p. 434; Patrick J. Welch and Gerry F. Welch, Economics: Theory & Practice (Chicago: Dryden Press, 1982), p. 46; and Roger LeRoy Miller, Economics Today (5th ed.; New York: Harper & Row, 1985), p. 86.

4. Milton H. Spencer, Contemporary Macroeconomics (5th ed.; New York: Worth Publishers, 1983), p. 23.

5. Roger N. Waud, Economics (2nd ed.; New York: Harper & Row, 1983), p. G-2. For a similar definition, see: Phillip C. Starr, Economics: Principles in Action (3rd ed.; Belmont, CA: Wadsworth Publishing, 1981), p. 441.

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6. Elbert V. Bowden, Principles of Economics (4th ed.; Cincinnati: South-Western Publishing, 1983), p. 774 (Emphasis in original.)

7. Elbert V. Bowden, Economics: The Science of Common Sense (2nd ed. abridged; Cincinnati: South-Western Publishing, 1978), p. 403. For similar definitions, see: Campbell R. McConnell, Economics (9th ed.; New York: McGraw-Hill, 1984), pp. 33-38; Richard S. Eckaus, Basic Economics (Boston: Little & Brown, 1972), pp. 59-64; Paul A. Samuelson, Economics (9th ed.; New York: McGraw-Hill, 1973), pp. 41-55; and Mansfield, Economics, pp. 40-43.

8. At best, the following texts paid only scant attention to the subject: Edwin Mansfield, Microeconomics: Theory and Application (4th ed.; New York: W. W. Norton, 1982), pp. 12-13; and George Malanos, Intermediate Economic Theory (Chicago: Lippincott, 1962), p. 395. The following texts did not mention the subject at all: Walter Nicholson, Intermediate Microeconomics and Its Applications (Hinsdale, IL: Dryden Press, 1979); David R. Kamerschen and Lloyd M. Valentine, Intermediate Microeconomic Theory (2nd ed.; Cincinnati: South-Western Publishing, 1981); S. Charles Maurice and Owen R. Phillips, Economic Analysis: Theory and Application (4th ed.; Homewood, IL: Richard D. Irwin, 1982); Steven T. Call and William L. Holahan, Micro Economics (2nd ed.; Belmont, CA: Wadsworth, 1983); Richard Leftwich & Russ Eckert, The Price Revolution & Resource Allocation (8th ed.; Chicago: Dryden Press, 1982); Lila J. Truett and Dale B. Truett, Intermediate Economics (St. Paul: West, 1984); Kenneth Boulding, Economic Analysis (4th ed.; New York: Harper & Row, 1966). The latter paid a small amount of attention to the subject in an earlier edition.

9. John F. Due and Robert W. Clower, Intermediate Economic Analysis (4th ed.; Homewood, IL: Irwin, 1961), pp. 9-13 (Emphasis in original.)

10. Sue Himmelweit, "The Individual as Basic Unit of Analysis," in Economics: An Anti-Text, ed. by Francis Green and Petter Nore (London: MacMillan Press, 1977), p. 27.

11. Robert Heilbroner and Lester C. Thurow, The Economic Problem (7th ed., Englewood Cliffs, NJ: Prentice-Hall, 1984), p. 644. For a similar definition, see: E. K. Hunt and Howard J. Sherman, Economics: An Introduction to Traditional and Radical Views (4th ed., New York: Harper & Row, 1981), p. 418.

12. Karl Marx, Das Kapital: A Critique of Political

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Economy, ed. by Friedrich Engels, condensed by Serge L. Levitsky (Chicago: Henry Regnery, 1970), p. 1.

13. Milton Friedman with the assistance of Rose D. Friedman, Capitalism & Freedom (Chicago: University of Chicago Press, 1962), p. 3.

14. Ibid., p. 4.

15. Milton Friedman and Rose Friedman, Free to Choose: A Personal Statement (New York: Avon Books, 1981); and Milton Friedman and Rose Friedman Tyranny of the Status Quo (San Diego: Harcourt, Brace, Jovanovich, 1984).

16. For some non-conventional approaches, see: Maurice Dobb, Studies in the Development of Capitalism (New York: International Publishers, 1963); Joseph A. Schumpeter, Capitalism, Socialism and Democracy (New York: Harper & Row, 1942); R. H. Tawney, Religion and the Rise of Capitalism: A Historical Study (Gloucester, MA: Peter Smith, 1926); Eric Roll, A History of Economic Thought (Homewood, IL: Irwin, 1974); and Joan Robinson and John Eatwell, An Introduction to Modern Economics (London: McGraw-Hill, 1973).

17. Karl Marx, Das Capital: A Critique of Political Economy, trans. by Ben Fowkes (New York: Random House, 1976), p. 253.

CHAPTER 2

CAPITALISM: HISTORY

History of Capitalism

In addition to the problems mentioned in the previous chapter, another difficulty that must be dealt with when attempting to define capitalism is that capitalism has undergone many transformations over the centuries. First there was what now is called "mercantilist capitalism" accompanied by early "petite bourgeoisie capitalism." "One can date the capitalist era as beginning in the sixteenth century. But it requires hindsight, illuminated by an understanding of the later development of industrial capitalism." [1]

Even though one "can" date the capitalistic era as beginning in the sixteenth century, when the capitalistic era actually began is not a well-settled point. People didn't know that they were experiencing the birth of capitalism when it was actually happening. It wasn't until much later, when capitalism was almost fully developed, that we finally were able to look back and review its birth.

In any case, following this early capitalism came the "manufacturing capitalism" of the Industrial Revolution. [2] Ultimately, after the change into "industrial capitalism" [3] came what is now called either "monopoly capitalism" [4] or "imperialistic capitalism" [5].

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These distinctions between various historical forms of capitalism are not always as clear as one would like. That is because the Industrial Revolution and the development of capitalism were processes, not events. They took place over centuries. Some historians even refer to an Industrial Revolution of the thirteenth century.[6] The dividing lines between feudalism and capitalism, as well as between the various stages of capitalism, are therefore obviously somewhat imprecise. Capitalism is not easily defined, even historically.

"The form which capitalism has taken in the 20th century is very different from what it was in the 19th century -- so different, in fact, that it is doubtful whether even the same term should be applied to both systems."[7] Capitalism "changes constantly to a point where the word scarcely has definable meaning."[8] These observations highlight the problem of definition. It is not necessary here to analyze capitalism's transformation or to predict what might follow; that is not the purpose of this work. But it is necessary to be aware of the changes. Defining capitalism is, to a goodly degree, an attempt to make the dynamic static. The profit motive is obviously a necessary consideration, but it is far from the only one. It existed long before the arrival of capitalism. The craftsman of the early craft guilds "sold his products retail

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in the town market. [It wasn't until] the acts of production and of retail sale came to be separated in space and time by the intervention of a wholesale merchant who advanced money for the purpose of wares with the object of subsequent sale at a profit [that] capitalism could be regarded as being present."[9]

In any case, capitalism is "'a system of exchange economy' in which the 'orienting principle of economic activity is unrestricted profit' [with the] additional characteristic that such a system is marked by a differentiation of the population into 'owners and propertyless workers.'"[10] "Capital needs a class of poor people -- more specifically people who do not own any means of production."[11]

As can be seen, it is not only the authors of pedestrian textbooks who have difficulties with defining capitalism; even those authors who attempt to do the requisite analysis face them. There is a difference, however: The apologists of capitalism usually are not among those who have attempted to do that requisite analysis.

In any case, obtaining a profit has resulted from many different approaches at different times. How profit is obtained and exactly what profit is will prove to be very important to this analysis. These questions will be attended to later.

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Entrepreneurship -- i.e., the factor of production that risks its resources to organize the other factors[12] -- is not all by itself a condition sufficient to define capitalism either. There were factories created and managed by entrepreneurs who brought the factors of production together, long before capitalism became the major mode of production.[13] These factories were, even for a much later time, quite sophisticated. They often included extensive and expensive capital equipment. Naturally, these entrepreneurs expected a return on their time, energy, and capital. After all, they put these things at risk just as do present-day entrepreneurs. Admittedly these activities, though undoubtedly capitalist activities, were not widespread, but they were well established. For an economic system to be a capitalistic one, however, there must be more than just a few widely scattered entrepreneurs.

The existence of a market is not enough either. Market here means an actual physical market, not the abstract concept of the economist. In any case, markets also existed long before the coming of capitalism.[14] In fact, to a good degree, it was the continued existence of markets that kept economic activity alive through the so-called Dark Ages, which weren't really all that dark. It was thought that there had been a "Dark Age" because, until recently, historians were deprived of adequate source

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material.[15] Further, the existence of market socialism, as inadequate an economic system as some capitalists claim it to be, shows that it is possible for a market to exist without capitalism.

Capitalism blossomed with the Enlightenment, a period during which all social ideas "were centered around one hope: that man, in the course of his history, can liberate himself from poverty, ignorance, and injustice, and that he can build a society of harmony, peace, of union between man and man, and between man and nature." [16] Yet, whatever else the Enlightenment might have been, it was a period in which the primacy of the individual was advocated as an absolute. It was believed that every man, being a knave must be governed by his private interest, "and, by means of it, make him, notwithstanding his insatiable avarice and ambition, cooperate to public good." [17]

The advocacy of the individual as an absolute is understandable, considering the struggles with the state for personal liberty that had been occurring for centuries all over Europe. There had been "major revolutions in virtually all western states." [18] Personal liberty was an idea whose time had come, and further, it was an idea that would soon become sacrosanct, just as had the idea of the divine right of kings before it. Individual rights, along with capitalism, would develop into an extremely rigid

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ideology.[19]

The struggle for individual political power almost always was associated with the development of the bourgeoisie. It was extremely difficult, if possible at all, to carry on capitalistic activity without political and economic freedom. As the bourgeoisie grew in numbers and strength, political power began to shift away from the previously all-powerful state to the bourgeoisie,[20] the result being that the state adjusted: The previously all-powerful state compromised with the new economic class. The state mostly allowed the members of this new economic class complete power in the economic realm and provided them with the political liberties they needed in order to proceed with their capitalistic endeavors. Even so, the assumption that the individual is absolute needs a defense; an adequate one seldom is given.

Both society and economics were developing rapidly during the Enlightenment, and this development needed to be justified. It was to Adam Smith, among others, that this task fell, and he made the "invisible hand" the justification. "Every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign

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industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention." [21]

Unfortunately, many forgot, or never knew, that Smith's invisible hand was not a justification of the right of the individual to do as he or she pleased. It was not an apologist's defense of unbridled capitalism. Smith believed that it was necessary to have a wealthy nation. By the wealth of a nation, he meant the Gross National Product per capita. [22] He believed that it was necessary to have a materially wealthy nation so that the nation could defend itself and so that its citizens could prosper. The purpose of a healthy and wealthy collective, which is, after all, what a nation is, was to enhance the life of the individual. This is why Smith was seeking the causes of national wealth and why his great work was entitled An Inquiry into the Nature and Causes of THE WEALTH OF NATIONS as opposed to An Inquiry into the Nature and Causes of THE WEALTH OF INDIVIDUALS. Further, the "invisible hand" was not an economic concept but a theological one. It was introduced and explained not in THE WEALTH OF NATIONS but in The Theory of Moral Sentiments. [23] In Moral Sentiments, Smith sees individuals, particularly wise and enlightened ones, as

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partners of God; these individuals then would aid God in bringing society into a state of natural harmony.

In any case, Smith also believed that the self-interests of each individual would be so affected by the market that the result would be that each would act in a socially responsible way. These private interests thus channeled into this socially responsible behavior would then give us a self-regulating, hence cost-free, mechanism for allocating economic resources as society wished them allocated. Under this laissez faire market system, both individual liberty and the wealth of the nation would then flourish.[24] This is why Smith believed that the type of society that he judged best was obtainable only through capitalism, which allowed individuals to seek their own self-interests.

It is said that Smith adequately defended that claim when he made it; even some of his severest critics often agree with this assessment.[25] However, Smith did little more than assume the "invisible hand" based upon the assumptions that economic relations were natural and harmonious. He never defended his naturalism.

In any case, that was then; even if Smith did what it is claimed he did, capitalism now needs a better defense than it is given. Capitalism probably is not the economic system that best assists the search for the best society,

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even though its defenders still assert that it is. The market economy, in practice, gives results that contradict both the reasons Smith gave for advocating the system in the first place and the reasons that current defenders present.[26] The reality of the matter is now quite different from the claims made by capitalism's proponents.

It is claimed that capitalism is the first economic system that even began to allow for even simple survival for the many. It wasn't too long ago that almost everybody still believed that "the vast majority -- and soon all men -- in the western world will be primarily concerned with living, [rather] than with the struggle to secure the material conditions for living."[27] Even to Karl Marx, capitalism was "the source of expanding wealth and the backbone of technological progress [which] rescued a considerable part of the population from the idiocy of rural life."[28]

These hopes have not materialized. The U. S. Bishops Ad Hoc Committee on Catholic Social Teaching and the U.S. Economy has recently said, "The fact that more than 15 percent of our nation's population lives below the official poverty level is a social and moral scandal that must not be ignored. . . . The distribution of income and wealth in the United States is so inequitable that it violates the minimum standard of distributive justice."[29] "On the one hand,

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people have attained an unheard of abundance which is given to waste, while on the other hand so many live in such poverty, deprived of the basic necessities, that one is hardly able even to count the victims of malnutrition."[30] One would think that the persistence of an economic system that has generated such results would more often lead more people to expressions of moral outrage.

In any case, the claim that capitalism was the first economic system that made even simple survival possible for so many is also given as the major reason for capitalism's early acceptance in many places. Bear in mind, however, that at the time nature was still bountiful, and our numbers were few enough that they were not yet pushing it beyond "the tolerance margins which benign nature always provides."[31] The population of Europe was at a low ebb. "Almost everywhere in Europe, populations had increased little during most of the 17th century."[32] "No century since the 14th has a worse record for epidemic disease."[33] They were relatively so few people in the eighteenth and nineteenth centuries, that nature was still able to take care of everybody without too much strain. The United States and other sparsely populated countries were more than able to absorb emigrants from Europe's burgeoning population, thus delaying the apparently inevitable Malthusian moment of truth that we now face.[34]

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Under these conditions, it is surely possible that another economic system might have done an equally good job, perhaps even a better one. Capitalist apologists, however, claim that the capitalist economic system, through the profit motive, has raised the standards of material living of the many far better than any other system could have done. These apologists continue even now to claim that capitalism is still able to ensure simple survival for everyone in spite of all evidence that it cannot.[35]

The claim that capitalism was able to ensure simple survival for the many is debatable, but even if true, it is not the same as saying another system could not have done equally well or better, or that a new system could not do even better now. Rapid economic growth was experienced, but growth rates could possibly have been even more rapid if a system other than capitalism had been employed. Alternatively, the growth rate could have been slower and more deliberate -- i.e., it could have considered costs of growth that capitalism largely ignored and thus have avoided many of the problems that currently confront us. An alternate approach could have produced a superior result: Anything could have happened.

That, however, is not the point. The point is that to claim the achievements of capitalism as proof for the efficacy of the system requires more defense than is usually

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given. Other economic systems might have done as well or better under the then-existing conditions.

Even if such rapid growth was desirable, it must be remembered that high growth rates usually are possible only when the base is small. It is usually much more difficult to double a large quantity than a small one. Though this is not always true, it is so in this instance. The rapid growth rate provided by capitalism no longer can be accomplished by any economic system. Any possible chance for an economic system other than capitalism to prove that it could have done equally well or better has been lost; it is most unlikely that the base will ever be small enough again, particularly relative to the resources that were available then, for any other economic system to have the opportunity to attempt to match capitalism's past accomplishments.

Further, there is the question of how our material abundance has really affected our standard of living. Economists are constantly warning us not to confuse the Gross National Product with an improved standard of living.[36] There is more to a high standard of living than large amounts of material goods, contrary to Adam Smith's use of Gross National Product as a measure of wealth. Incidentally, Gross National Product is not even an adequate measurement of production. Yet even with all the warnings,

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mainstream capitalist economists still advocate growth, even at greater and greater ecological costs.

In any case, the claim that capitalism still can provide for even simple survival, though more is usually claimed, is rapidly becoming less defensible. The world population continues its crazy and unrestrained growth spiral, accompanied by increasing worldwide famine[37] despite the fact that United States farmers are going bankrupt because they are producing too much food and cannot survive even with the subsidies they receive for keeping their land idle.[38] This coexistence of starvation and plenty is not solely a distribution problem, as is so often claimed; as will be shown later, it is inherent in the system.

Even considering the advances that have been made in economic theory and all the changes that have taken place in the world in the last century, Marx's interpretation of capitalism is still the best one. "Marx's first defining feature of capitalism was that the market coordinated and allocated social labor by mediating all productive relationships among workers in such a way that the social nature of labor appeared as the price of commodities."[39] "There were no factors of production before capitalism. Labor, land, and capital were not commodities for sale."[40] "The creation of factors of production meant the end of

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assured livelihoods."[41] The peasant "owned" only his own labor power. Wealth was now in the form of capital to be used for further profit. Its previously primary use for luxury was greatly diminished.

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3. Beaud, A History, p. 71.
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15. Duby, Early Growth, p. 112.
16. Fromm, Socialist Manifesto, p. 10.
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18. David Hackett Fischer, "Chronic Inflation: The Long View," The Journal of the Institute for Socioeconomic Studies, V (3) (Autumn, 1980), pp. 81-103.
19. Bartlett, Economic Foundations, pp. 170.
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30. Ibid., p. 370.

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32. Fischer, Chronic Inflation, p. 94.

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CHAPTER 3

CAPITALISM: EFFICIENCY

Efficiency

It was shown in Chapter 1 that the major argument given for accepting capitalism is that it is the economic system that best serves the social welfare. The claim that capitalism is the most efficient economic system is another reason given by its advocates. Actually, efficiency is now the major reason given for the adoption of the capitalistic economic system. When pressed, the system's advocates will grant that achieving the greatest amount of social welfare possible is still the justification for capitalism, but efficiency is a major concern because it is a necessary condition if the greatest amount of social welfare obtainable is in fact to be obtained.

Efficiency, however, is actually desired for a different reason: It is desired mostly because it brings about other results desired by the advocates of capitalism, results other than those claimed for it and usually at the expense of social welfare.

"As a concept, efficiency has an intuitive appeal, but on close examination it turns out to be somewhat elusive." [1] On the surface, it appears reasonable to claim that any economic system that produces what its members want, and does so without waste while creating a better society at the same time, is an efficient system and should be adopted. The assumption that a better system is being

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created at the same time that efficiency is being achieved is an important assumption and needs to be defended. Capitalist defenders strongly imply that capitalism is efficient and also creates a better society, but analysis of what they say shows confusion and omission.

In any case, if one is even to begin to defend this claim, one must first define "efficiency." Capitalists advocate their economic system as efficient in every meaningful sense of the word, but it is not. Further, the system is not even as efficient as it is claimed to be in those areas which supposedly are its greatest strengths.

Various texts define one type of efficiency, technical efficiency, in different ways; other texts fail to distinguish at all between technical efficiency and another type, economic efficiency.[2] One text says that technical efficiency is "the utilization of the cheapest production technique for any given output rate; no inputs are willfully wasted." [3] Another says that "it is production on the production possibilities frontier curve," [4] i.e., the "curve that depicts all possible combinations of total output for an economy." [5] In other words, all socially available resources are being used when production takes place on the production possibilities frontier curve. In any case, this is a major disagreement. Production can be technically efficient according to the first definition and

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technically inefficient according to the second if that production is taking place at a point inside the production possibilities frontier curve.

The reality is that production in a capitalistic economic system takes place on the production possibilities frontier curve only in the market structure referred to as perfect competition, and even there it is not insured. It is, at best, only a long-run probability.[6] In all market structures other than perfect competition, production will almost never take place on the production possibilities frontier curve. It is purposely curtailed inside the limits of the curve because it is more profitable to do so. To produce on the production possibilities frontier curve, i.e., to be technically efficient, in these other market structures is irrational.

In any case, the second definition, producing on the production possibilities frontier curve, obviously must be the correct one because it is just plain silly to defend a level of production as being efficient when there are idle resources in the society that are available to be employed. It is particularly so when the idle resource is labor, since the laborers may be having difficulties surviving. Even this definition, however, is insufficient to convey a complete sense of efficiency. It is possible that what is being produced with technical efficiency is useless and

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unwanted. This makes necessary the introduction of the notion of economic efficiency.

Economic efficiency presents us with the same problem as did technical efficiency. Again, some texts define it differently from the way others define it, while still other texts fail to distinguish between economic efficiency and technical efficiency at all. One text defines economic efficiency as "the use of resources that generate the highest possible value of output as determined in the market economy by consumers." [7] Another text says that economic efficiency "is fulfilling consumer preferences by producing the combination of goods that people want with their present income" [8] plus technical efficiency, i.e., production on the possibilities frontier curve. "Economic efficiency is synonymous with Pareto Optimality," [9] the "condition that exists in a social organization when no change can be implemented that will make someone better off without making someone else worse off -- each in his or her own estimate." [10] Pareto Optimality is another concept which itself needs to be defended. It rarely is.

It is again obvious which definition of economic efficiency is the correct one. It must be the second, since (1) only it assumes, by the inclusion of technical efficiency, that no resources are idle; and (2) an economic system cannot be said to be economically efficient in the

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manner intended if the amount of goods being produced is less than would be produced in an economy that was perfectly competitive. The first definition does not exclude the possibility of market structures other than perfect competition, nor does it prohibit "technical efficiency" from being production inside the production possibilities frontier curve.

So, the texts tell us that efficiency is production both on and inside of the production possibilities frontier curve, producing that quantity desired by the consumers both under and not under the conditions of perfect competition. At least one of these alternatives is impossible. Production in a capitalistic economic system never will take place on the production possibilities frontier curve except under conditions of perfect competition, yet producing on the production possibilities frontier curve is the only one of these alternatives that is at all efficient.

None of this confusion even addresses the problem of social efficiency.[11] Simply stated, a social system is socially efficient when it is doing what it says it should be doing, thereby fulfilling the needs for which it supposedly was created and currently is being maintained. In other words, the criteria by which an economic system will be judged socially efficient will be determined, in advance, largely by the system which is being judged.

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Social efficiency does not mean that the system is doing what is best for society -- i.e., what it might really be doing to produce a superior society -- but at least it should not be counterproductive to the obvious ends of a rational society.

If a system does not accomplish, or nearly approximate, its end, it is socially inefficient regardless of any other type of efficiency it might have achieved. Operating anywhere between these extremes means the system is more or less socially efficient.

It is not necessary to develop a numerical rating scale to measure social efficiency; in fact, such a scale would surely be counterproductive. The concept itself is enough. We are not such fools that we cannot determine approximately how well we are doing.

NOTES: CHAPTER 3

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3. Miller, Economics Today, p. 71.
4. Spencer, Contemporary Macroeconomics, p. D-12.
5. Ibid., p. D-31.
6. Dolan, Basic Microeconomics, p. 170.
7. Miller, Economics Today, p. 71.
8. Spencer, Contemporary Macroeconomics, p. D-12.

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9. Ibid., p. D-13.

10. Ibid., p. D-29.

11. This term, as used here, is, I believe, original with me. I have seen it in print only once (Hunt and Sherman, Economics, p. 177), but it was never described or used again.

CHAPTER 4

CAPITALISM: PERFECT COMPETITION

The Model of Perfect Competition

The capitalistic model, like every model, has assumptions upon which it is based. The capitalistic model, however, is seriously flawed; many of its assumptions are false or contradict other assumptions. Most economists have left these assumptions largely unchallenged. E. F. Schumacher, among a select few, was an exception. His "deliberate intention was to subvert 'economic science' by calling its every assumption into question, right down to its psychological and metaphysical foundations." [1] Most economists have had their training in the Samuelson tradition, which "merely offers up unexplained, unsubstantiated assertions." [2] Since few ever question these assertions, the model's assumptions are still in need of challenge.

A major problem is that capitalism and perfect competition are terms that are often interchanged with one another. No one seriously believes that capitalism and perfect competition are synonymous, yet the terms are frequently used that way anyhow, particularly by authors of pedestrian economics textbooks. This interchanging of "names," treating them as if they were synonymous, is done to the point that results peculiar to perfect competition are made to appear to be the results of capitalism in general. The current instantiation of the capitalistic

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economic system is praised by many of its advocates and apologists because they favor results which are peculiar to perfect competition. But the current economic system is not competitive, quite the contrary. This interchanging of "names" is confusing, and it is incorrect.

Perfect competition is not, in fact, identical to capitalism as it exists -- or ever has existed, for that matter. It is my judgment that these two terms are interchanged, perhaps unconsciously, because the model of perfect competition can be defended to some small degree, even if only as a model; unbridled capitalism can be defended, if at all, only as a patchwork orthodoxy, and then not very well.

It might be possible to solve or eliminate some of the difficulties thus far confronted if the models of the various capitalistic market structures were described and analyzed. Such is the purpose of this and the next chapter. Because of the aforementioned difficulties, this chapter will be limited strictly to an analysis of the market structure of perfect competition; the other market structures will be considered in the next chapter.

The problem with the market structure of perfect competition is that its assumptions are unrealistic. The presentation of the standard model of perfect competition is often just as confusing as that of the

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definitions of capitalism already considered. Further, one "standard" model often differs substantially from another "standard" model. Model building of this kind is difficult, but hopefully the model presented herein will be adequate to our task; it is hoped few will disagree too strongly with it. It will be as strong a representation of the model as can realistically be constructed, so that accusations of having constructed the argument in such a way that it can be easily attacked can be avoided. The model presented here will not be a straw man. In my judgment, the model of capitalism presented by Randall Bartlett in Economic Foundations of Political Power is such a model; therefore, it is the one this work will mostly follow, with slight variations.

To begin with, perfect competition does not mean that the system is perfect; it merely means that all mutually beneficial transactions are completed. Neither does "competition" imply cutthroat competition -- i.e., "price competition so persistent and thoroughgoing that all pure economic profit is eliminated,"[3] which does not have a place in the system. "Competition" means only that each firm must minimize its costs while maximizing production as well as, or better than, its competitors, if it expects to earn a profit and remain in business. Non-price competition -- i.e., advertising -- is not allowed either; it is not

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part of the model. It is a characteristic of monopolistic competition, though the other market structures, monopoly and oligopoly, sometimes practice it as well.

Further, standard economic theory asserts that each economic actor operates in his own self-interest, is rational, and possesses complete, or at least adequate, information (or, as some would have it, all are possessed of equal ignorance). Other assumptions are that all products are entirely homogeneous, that entry into and exit out of the market is easy, and that there are enough producers and consumers so that no one of them, or grouping of them, can influence price. This last is supposed to ensure consumer sovereignty, the idea that "the basic decisions about what to produce and how much to produce are dominated by consumers." [4] There also must be private property -- i.e., the factor of production capital, the tools we use to produce.

Using the concept of "private property" in this way is peculiar to economics. Though it may be confusing to those who are used to the term's more colloquial meaning, that is nonetheless the way the term will be used in this work. Private property does not include one's own personal belongings, i.e., individual property for use. It does not mean consumer goods; they are by definition non-productive, and therefore excluded.

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Private property, as defined, is essential to capitalism. It is the system's distinguishing characteristic; the system cannot exist without it. Capitalists see the right to private property, in both the economic and colloquial senses, as inviolable; but it is not. Property is everywhere a creation of society; property cannot exist without the state. To imagine that it could is to imagine the incomplete. The state both defines and legitimizes property. Property is therefore every bit as much a social concept as an individual one, if not more so.

Another assumption of the model is that government should adopt an attitude of laissez faire -- i.e., the non-interference of the political entity in the economic sphere. In some ways, this assumption is more one of the political economy in which the economic system operates than it is one of the capitalistic economic system. Nonetheless, it is assumed that it is necessary that the economic system be allowed to operate in an unfettered way.

In summary, the following is a list of the model's assumptions: (1) private property; (2) many buyers and many sellers; (3) free markets; (4) mobility of capital; (5) homogeneous products; (6) no non-price or cutthroat competition; (7) consumer sovereignty; (8) self-interest; (9) rationality; (10) complete, or at least adequate, information; (11) a laissez-faire government.

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If a real understanding of capitalism is to be had, these assumptions cannot be accepted at face value; they must be analyzed and criticized if necessary.

First, it is an important assumption of the model that all products in any given industry are homogeneous. This assumption is necessary if the individual producer is to face a perfectly elastic demand curve, without which there cannot be consumer sovereignty. The facts show, however, that the products of most industries are heterogeneous rather than homogenous. Homogeneous products exists in few industries, if any. They never exist in uninformed markets -- i.e., those markets in which the consumer has relatively little information about the product in question.[5] However, even in those few industries where relatively homogeneous products do exist, producers do their best to change their products so that they will obtain an advantage over other producers. This is called product differentiation, the essential feature of monopolistic competition; it has no role in perfect competition.

Frequently, producers attempt to make their product different by improving it. Where this is the case, society may occasionally benefit; any improvements are often made at the unreimbursed expense of others in the economy. In any case, most of the time, producers have sought only the appearance of change, i.e., superficial product

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differentiation. The producer will do almost anything to convince the consumer that his product is different from the rest. The producer "improves" products such that they have the appearance of difference but are not really different, or are meaninglessly so. The changes may even be harmful. This activity is neither economically efficient nor socially efficient. It is, at best, technically efficient, and technical efficiency by itself is inadequate to support a claim of efficiency.

The producers make these changes in the hope that these changes will enhance the possibility of the producers increasing their market share and control over the amount produced. This control over supply enables the producers to increase their profits.

Recently, the public has begun to suffer from a new phenomenon: Consumer goods are being produced with a high degree of isolation, i.e., their consumption has "a minimal direct and observable impact on the average consumer." [6] Though this phenomenon is seen mostly in the production of public goods, e.g., military systems, it is also seen in the private sector. Isolation in the production of private goods exists particularly when new products (e.g., sugar enhanced foods) are introduced for which there wasn't a prior need, the so-called "need" being created through advertising only after it was determined that the production

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of this 'new' product would be profitable. These new products obviously are not responses to consumer demand.

In spite of such instances, most economists still support mainstream consumer behavior theory. When confronted with the phenomenon of modern advertising, which conflicts with consumer behavior theory, the economist usually attempts to ignore the conflict, or failing that, to adroitly side-step it -- adroitly at least from the perspective of the not-quite-so-observant.

It has reasonably been claimed that economists have not considered "those examples [that] show how much more realistic and convincing psychological theory is [in explaining consumers' behavior and motivation] than the economists' sweeping assumption[s]."[7] Scitovsky, an economist, says that, in addition to economic reasons for consumer behavior, there are many mental and emotional ones. The producer is often aware of these mental and emotional reasons, but the consumer, as well as the economist, is not.

The producer has reason to want to know the motivation behind consumer behavior: Even a small amount of such knowledge, properly applied, can greatly increase profits. Unfortunately, the consumer suffers from a problem of marginal cost. A large investment in obtaining the requisite knowledge is usually necessary even to obtain a minimal savings. It is often too costly for the consumer to

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become as knowledgeable as necessary to be on an equal footing with the producer: Hence uninformed markets.

The economist, however, has a reason not to want to know about these other considerations: Knowledge of them would disrupt the model. It would reveal that consumer behavior theory is inconsistent with other assumptions of the model of perfect competition, and obviously so.

The assumption of both the existence of homogeneous products and the absence of non-price competition, then, can be accepted only as a pedagogical device designed to enable us to better understand the model of perfect competition -- but with the proviso that they have been "selected on grounds of [their] convenience in [the] respect of simplicity in describing the model . . . [and are] relevant in judging or applying the model"[8] of perfect competition only. Any derivations which might be made from any successful arguments that this model might engender are not to be used in support of any other market structures unless it is clear that the extension is defensible. These restrictions are important since in none of the other market structures do homogeneous products exist, and in all of them, all the firms engage in non-price competition.

The assumption of an absence of cutthroat competition can be accepted more easily. Cutthroat competition is not extensive because it is too blatantly illegal. Little, if

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anything, will be included in the capitalistic economic calculus unless it can be measured as either a cost or a benefit. The punishment for an illegal act can be such a cost. Therefore, the threat of punishment is a cost that the capitalist can never completely ignore. The amount of attention paid to the law, however, usually is directly proportional to the severity of the punishment which would be imposed for disobeying the law and to the probability of the punishment being imposed.

The assumption that all economic actors possess complete, or even adequate, information before they act is also unrealistic. Even most authors of pedestrian texts discard the assumption early on because they realize that it is unrealistic, but they usually discard this assumption only after they have applied it to consumer choice theory. The results of mainstream consumer choice theory just can not be arrived at without the assumption of complete information, though there are always attempts to obtain them even without the assumption of complete information. Some claim that, because of the high marginal costs that consumers must pay if they are to adequately inform themselves relative to the benefits of being informed, it is rational to remain ignorant. [9] To make this claim is to be ignorant.

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It should be noted that when the assumption is dropped, few state openly that they have done so.[10] If the model of perfect competition is to work, however, it is necessary to assume adequate information. Allowing this assumption, however, lends the model of perfect competition credence that it otherwise might not have. In any case, the assumption of complete information can be accepted only if it is well-marked as a dangerous pedagogical device. To accept it in any other way is to create but an apparition of an assumption.

Economists really know very little about consumer behavior, yet when they study it, they assume that the consumer knows what he is doing. The economists use the assumption of complete information particularly when they discuss consumer choice theory. This is in spite of the fact that empirical studies have shown that consumers seldom do know much about their consumption choices.[11] A case can easily be made that economists retain this assumption of complete information in the study of consumer behavior, even if unconsciously, because the assumption is needed to support the claim of rationality.

It is not rational to claim that the chronically ill-informed are rational. After using the assumption of rationality to buttress consumer choice theory, almost all economists immediately eschew complete, or adequate,

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knowledge as unrealistic. They should eschew the assumption sooner, before they apply it to consumer choice theory. It is as unrealistic to apply it there as elsewhere -- probably more so.

In any case, with this plethora of evidence available, it isn't difficult to discredit the assumption of consumer sovereignty. If this assumption is to be accepted at all, it can be accepted, again, only for the model of perfect competition and with the same limitations as the acceptance of the other assumptions have had: that whatever is derived from the model of perfect competition can not necessarily be extended to the models of the other market structures.

The assumption of many buyers and many sellers is also necessary if there is to be perfect competition. It is not as difficult to accept this assumption; there are, or have been, industries where it is at least approximated. Agriculture was said to be, at least until recently, largely such an industry because "left alone, agricultural markets really do work in something close to this ideal fashion." [12]

But agricultural markets no longer are "left alone," and, in all probability, cannot be. Political interference in agricultural markets, even if currently inadequate, seems to be necessary to some degree or another in the current

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capitalistic economy. Without such interference, the consumer most likely would face an even more steeply downward sloping demand curve for his daily bread and brew than he does now.

Further, agricultural markets would probably no longer "work in something close to this ideal fashion" even if left alone by the government. What is referred to as agribusiness[13] has grown too large; large agricultural firms now have a stranglehold on supply in many areas. The fact of the matter is that there simply are not any industries whose market structure fits the model of perfect competition.

Again, the acceptance of the assumption must carry the same proviso as does acceptance of the aforementioned assumptions -- i.e., that its acceptance is limited to the model of perfect competition unless any extension to the other models is clearly stated and such extension defended.

Complete mobility of capital is another unrealistic assumption. Remember, "capital" here means economic capital, and it is economic capital that distinguishes the short run from the long run, the long run being that period of time in which economic capital can be changed.[14] By its very nature, economic capital is not mobile; it is most often specialized and not easily convertible for use in industries other than the one for which it was specifically

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designed. The assumption is necessary, however, if there is to be perfect competition, so it also will be accepted with the same proviso as was attached to the acceptance of the other assumptions.

The assumption of self-interest is a more difficult one to analyze. At first glance, it seems that it is a reasonable assumption in that it represents the real world accurately. But does it? There are those who make a seemingly excellent case showing that self-interest is not a legitimate assumption because it is a result of the market economy, not the cause of it. It may very well be that what appears to the market economist as innate self-interest is in reality a result of the mode of production in a particular historical period.

In any case, a rational self-interest is not selfishness as ordinarily defined; it is nothing more than "a concern with one's interest.[15] We all have it; it is necessary for our survival. This does not mean it is necessary at all costs, particularly at the cost of one's moral values, whatever they might be. One's moral values, after all, also "better his condition." Selfishness, on the other hand, is exclusive concern with one's own interest.

Further, there are probably situations where the interest of the other is also mine: for example, the other's interest in a peaceful and orderly way of life. The model

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doesn't consider any of this. The assumption of self-interest needs to be argued for. For now, it also will be accepted as a pedagogical device necessary to complete the model, as have the other assumptions, and with the same proviso: No derivations made from the model of perfect competition will be extended to the models of any of the other market structures without the exercise of extreme caution.

The assumption that there is, or could be, a laissez-faire government cannot be accepted either; it simply is an impossible assumption. Government, whether public or private, is ubiquitous; all government action, or inaction, "is the affirmative exercise of power from one view and the proscriptive check upon power from another." [16] Government always supports one thing or another even if only by its inaction.

This is the logical result of the very nature of the beast. Laissez-faire has always been misrepresented as a policy. It is not, and never was, a do-nothing policy. It always was, of necessity, a policy of interference, whether active or passive. As long as there is a government, it must do either something or nothing. If it does something, it will change the status quo, which will probably aid some while hindering others; if it does nothing, the status quo will be maintained, which will probably aid some while

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hindering others. In either case, most governmental actions will promote the status of some at the expense of the status of others, whether intended or not.

"The system of legal controls, whether employed actively through imposing state obligations or more passively through affording protection for private economic pressures, determines the nature of the economic system." [17] It gives structure to private property as private coercive power or, more strikingly, public government creates private government.

Even more important than this role, however, is the role that government plays in all societies. "Any particular state is the child of the class or classes of society which benefit from the particular set of property relations which it is the state's obligation to enforce." [18] Sweezy is far from being alone in the view that all governments rule in the interest of those who created the government. That this was the case was recognized as far back as the time of Adam Smith. "Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all." [19] Smith was not alone among our "heroes" who understood this. John Locke said "government has no end other than the preservation of

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property."[20]

That the protection of private property is the primary concern of a government in a capitalistic economic system should be very common-sensical and straight-forward. It is not very likely that a group of people with enough power to form a government would form one that did not protect and promote their own interests rather than the interests of others.

Protection of private property is what the United States Constitutional Convention was all about. It wasn't called to write a constitution; it was called to correct the Articles of Confederation. In fact, were the Articles of Confederation to be the basis of judgment, the Constitutional Convention was extraconstitutionally called. It was called to correct what was seen by some to be an extensively democratic society. The Federalist "aristocrats" thought the people to be too excessive in the exercise of their newly-granted democratic freedoms. Seen in this light, an investigation of the United States Constitutional Convention easily reveals that ultimate power was retained for the writers of the document. Only that amount of power which was absolutely necessary in order to maintain an acceptable level of social order was provided to anyone else.

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The contrast between the Declaration of Independence and the Constitution is great indeed. The former trusted the people; the latter didn't. The Electoral College and the appointment of Senators, to say nothing of the unequal terms of office, graphically display this mistrust. Moreover, results other than these should not have been expected. White male property owners wrote the Constitution; it should not be surprising that, for all practical purposes, only the white male property owner was granted the franchise.[21]

Under such conditions, the impossibility of government being laissez-faire should be obvious. Apparently, it is not. Milton Friedman, who could be called a major spokesperson for capitalism, if not the major spokesperson, is an advocate of, if not laissez-faire government, minimal government. Yet, he maintains that among the major functions of government there must be the enforcement of private contracts and the fostering of competitive markets.[22]

"It is an obvious responsibility of the state . . . to maintain the legal and institutional framework within which competition can function effectively as an agency of control."[23] "Government is essential both as a forum for determining the 'rules of the game' and as an umpire to interpret and enforce the rules decided on."[24] The latter

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function, that of acting as an umpire, has been vastly exaggerated as a reason for government existing in the first place.

This is far from being a laissez faire role for government. Not only is it the role of government under this peculiar interpretation of laissez faire to do whatever is required to promote the market system, it also is its role to preserve property rights -- i.e., to serve as the impartial arbiter of justice, economic and otherwise.[25] Apparently, this is the role of all governments, since Dr. Friedman does not limit his claim to a government in a capitalistic economic system. In any case, even were it possible for laissez-faire to obtain, it never has.

History is full of examples showing that laissez-faire has never been more than an ideal. To a great degree, it was the Crown's involvement in the wool export trade as early as the fourteenth century, an involvement due to the large export taxes received by the Crown, that led England into the Industrial Revolution.[26] "Historically, it [laissez faire] developed as a vigorous attack upon entrenched social, commercial, and industrial privilege."[27] It is amazing that anyone ever thought that laissez faire could exist, particularly today.

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What the proponents of capitalism really want when they assume a laissez-faire government is a government that is not antagonistic towards capitalism. Now, however, more is demanded than just a government that is not antagonistic to capitalism: It is demanded there be a government which advocates the current capitalistic economic system.

In any case, the assumption of a laissez-faire government is an impossible one. In order for the model of perfect competition to show that capitalism is the best economic system, that model needs conditions that supposedly would obtain under a laissez-faire government. The model simply assumes that what it is trying to show as the best economic system actually is the best economic system. The model builders claim that this type of political and economic arrangement provides for the greatest individual freedom.

In any case, it is not possible for any significant amount of perfect competition ever to obtain in the world whatever government might exist. For now, the assumption of a laissez-faire government can be accepted only as were all the others, i.e., as a pedagogical device limited to the model of perfect competition.

The assumption of rationality is another story altogether. It is difficult, if possible at all, to claim that someone is acting rationally if that person doesn't

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have all the information needed to make a rational decision. Yet this is exactly what all mainstream economists claim, for consumer and producer alike.

There is a certain logic to this claim, however. Because of uncertainty in the world, it is said to be rational to act without adequate information. This can be arguable. For example, one might not have enough time to obtain adequate information when an immediate decision is necessary. It is seldom rational under such conditions just to procrastinate. One must decide and hope for the best. But even if it is necessary in the short run (as it often is) to make decisions with less (even substantially less) than adequate information, it is neither rational nor cost-effective to allow such a state to continue. Yet, most people do allow it.

It is to be hoped, however, that one will not too often be that unprepared. If one is continuously unprepared, one cannot pretend to be rational, for even if one makes adequate short-run decisions, those short-run decisions are rational only if they also fulfill long-run criteria. This so-called short-run rationality is often little more than expediency.

Further, it is likely that the additional information necessitated by being unprepared is such that it can be useful in a myriad of situations, thus dramatically lowering

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the marginal cost of obtaining it. This cost-benefit analysis is seldom done.

Limiting rationality in this way is to assert that it is often rational to act out of ignorance and nearly to identify it with ignorance; this limitation so emasculates rationality that it becomes a thing undesirable to have. If information has any value at all, it is to serve us in our actions. To act without information is hardly rational.

It is said, however, that people really behave in this way. Maybe so. This type of consumer behavior may even be rational, as is claimed by mainstream economists, given the market system and its assumptions, but this account of rationality, if it is to have any merit at all, must be something more than just a description (however accurate) of how people act in a particular economic system. After all, rationality implies that at least some kind of consideration is given to all relationships, not just the ones considered by the narrow interests of the market economy. It is not rational to so limit the analysis.

It should be obvious, therefore, that the adequate, though not necessarily complete, information assumption is necessary for more than pedagogical reasons. Without the adequate-information assumption, the assumption of rationality is dubious at best. It is necessary, therefore, that even when the adequate-information assumption is

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discarded as unrealistic, that it be done as silently as is possible so that what just has been explained won't be noticed. It is impossible, therefore, to accept the assumption of rationality, particularly regarding consumers, as anything more than a pedagogical device.

Given the above, even with the ad hoc assumptions added to protect the integrity of the model's original assumptions, the capitalist still ends up with a system that undercuts its own assumptions, has conclusions that contradict its assumption when it does not ignore them completely, and has results that contradict the reasons given when advocating the system. None of the assumptions of this model, particularly rationality, maintain their integrity.

In any case, if it is determined that the social results that might be obtained in a society which had only perfect competition as its economic system are desirable, a society that adopted that system must be careful that that society really does get the economic system that it has selected. If a society isn't careful, it shouldn't be surprised if it doesn't get the expected results. That is, in fact, what is happening. Most of the lay members of the current capitalistic industrialized West are enamored of perfect competition. But there is no such thing. Even the system's economists are not surprised that reality is not as

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the model predicts it should be.

An example of this lack of surprise when shown evidence of a conflict between reality and prediction is the following. A senior official in President Carter's administration was quoted as saying, "It's really scary. This inflation thing is frightening because we do not know what causes it, or what to do about it. The economists go to their computers, plug in the data, and out comes information that says nothing like this should be happening. It's very, very scary stuff." [28]

Yes, it's scary. But it's even scarier than this unnamed official thinks it is. Economists are surprised that reality does not map on the predictions of their model; they should be surprised if it did. Reality is often much too complicated to be accurately predicted very often by a model. The scariest thing of all is that those surprised economists maintain their belief in their model in spite of all evidence to the contrary. They are surprised that reality is not as the model predicts it should be.

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2. Green, "The Myth of Objectivity in Positive Economics," p. 3.
3. Dolan, Basic Microeconomics, p. 218.
4. Waud, Economics, p. G-3.

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6. Bartlett, Economic Foundations, p. 55.
7. Tibor Scitovsky, The Joyless Economy: An Inquiry into Human Satisfaction and Consumer Dissatisfaction (Oxford: Oxford University Press, 1976), p. xii.
8. Milton Friedman, "The Methodology of Positive Economics," in Essays in Positive Economics by Milton Friedman (Chicago: University of Chicago Press, 1935), pp. 6-43.
9. Bartlett, Economic Foundations, p. 53.
10. Ibid., Ch. 2 and p. 53.
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12. Dolan, Basic Microeconomics, p. 144.
13. "The Market Function of Costs for Food Between America's Fields and Tables," Economic Research Service (USDA) for the Committee on Agriculture and Forestry, U.S. Senate, March 26, 1975, p. 79.
14. Dolan, Basic Microeconomics, p. 144.
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19. Smith, Wealth of Nations, Vol. II, p. 236.

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20. John Locke, "The Second Treatise on Civil Government," in John Locke: On Politics and Education, intro. by Howard R. Penniman (Roslyn, New York: Walter J. Black, 1947)
21. Gordon S. Wood, The Creation of the American Republic, 1776-1787 New York: W. W. Norton, 1969), Ch. 12.
22. Friedman, Capitalism & Freedom, p. 2.
23. Henry C. Simon, A Positive Program For Laissez Faire: Some Proposals For a Liberal Economic Policy, ed. by Harry D. Gideonse (Chicago: University of Chicago Press, 1934), p. 3.
24. Friedman, Capitalism & Freedom, p. 15.
25. Ibid., p. 27.
26. Eleanora Carus-Wilson, "The Woollen Industry," in Trade and Industry, p. 355-428.
27. Simon, A Positive Program, p. 3.
28. "Trying Anew to Bash Inflation," in Time, March 10, 1980, p. 66.

CHAPTER 5

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The Model of the Other Market Structures

The previous chapter analyzed the model of perfect competition. In the present chapter, the models of the remaining market structures -- monopolistic competition, monopoly, and oligopoly -- will be looked at.

A monopolistic market structure is one in which the individual firm is the entire industry.[1] An oligopolistic market structure is one in which there are relatively few firms in a given industry which produce a relatively large percentage of the industry's total production.[2] A monopolistic competitive market structure is one in which there are a significant number of sellers producing similar but differentiated products and who aggressively advertise those differences.[3] The model of perfect competition is a model of a market structure that really doesn't exist today, if it ever did. At best, it can be claimed to be a standard towards which capitalism should strive. The models of the other market structures, on the other hand, do reflect to one degree or another some reality of capitalism. It is necessary, therefore, to understand these other models, and then to compare them to the definition of capitalism, if capitalism as it functions in the real world is to be understood.

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For the most part, the models of the other market structures can be grouped together into one. A common element in the model of each of these market structures is that the individual firm faces a downward sloping demand curve.[4] Though the slope of that curve and of its accompanying marginal cost curve may vary, the principle is the same. Facing a downward sloping demand curve allows a firm to affect the price of its product in an upward direction, by limiting supply, the amount of the supply limitation and the price control both being determined by the amount of market control the firm has.

Such firms are price-makers -- i.e., they are able to set the market price, at least partially, because of their market control. [5] This is as opposed to price-takers -- i.e., those firms that are forced to take the market price as given because it is exogenously determined.[6] Being a price-taker is a characteristic feature of those firms in an industry where the market structure is perfect competition. Being a price-maker is characteristic of a firm that is in an industry where the market structure is other than perfect competition, i.e., where there is some degree of monopoly control by virtue of a downward sloping demand curve. This analysis of market structures is not an attack upon them, though it will prove to be detrimental to the commonly accepted interpretation of capitalism; it is merely a

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straight forward explanation of the position of Alfred Marshall, who originally constructed the hypothesis.

"Marshall took the world as it is; he sought to construct an 'engine' to analyze it, not a photographic reproduction of it. In analyzing the world as it is, Marshall constructed the hypothesis that, for many problems, firms could be grouped into 'industries' such that the similarities among the firms in each group were more important than the differences among them." [7] This is surely the case; Marshall's models have extremely high degrees of explanatory power. Further, they are very realistic. In this chapter, these three models have been combined by abstracting one common feature from each of them, the downward sloping demand curve.

All capitalistic firms, regardless of market structure, produce or attempt to produce at that point where marginal revenue equals marginal cost i.e., where the last dollar of return exactly equals the last dollar spent on production. [8] It is at this point that profit is maximized. Since profit maximization is the goal of capitalistic firms, [9] it should not be surprising that all of them follow this rule, or attempt to.

In making decisions as to how much to produce, based upon the "marginal cost equals marginal revenue" rule, a firm will consider only those costs and benefits it actually

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experiences. This should not be unexpected. However, there are in almost every industry what are called externalities, spillovers, or neighborhood effects. An externality exists where there is a cost or a benefit that is external to an exchange -- i.e., where some costs and/or benefits accrue to a party or parties other than the parties immediate to the transaction.[10] An example of an externality is the pollution a firm causes in the production process rather than paying the cost of not polluting. This is a major problem in economics, particularly capitalistic economics, though it also is faced by a central planning economic system. It is so important a problem that one branch of economics, public finance, considers it in no small detail. Little more than a brief sketch of the problem can be given here. Though

There are negative externalities -- i.e., where those externalities are a cost to the party ultimately forced to bear them, and there are positive externalities -- i.e., where there is a benefit to the party ultimately allowed to enjoy them. It should be obvious why negative externalities are the large majority of externalities in a capitalistic economic system. If the capitalistic production process results in a positive externality, it will surely have been unintended. If it results in a negative externality, the result is less likely to have been unintended, at least for

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long. If one is operating in one's own self-interest in order to maximize profit, one will be more apt to pay close attention to retaining that which will be of benefit -- i.e., a revenue -- than to that which will result in a cost to someone else. This alone will lessen the number of positive externalities.

The reason that known positive externalities are always unintended is that as soon as they are recognized an attempt will be made to recapture it, to internalize it. Obviously, this will not be the case with negative externalities. If anything, the exact opposite will be the case: Every effort will be made to keep them external. The superior capitalistic manager also will attempt to make as many of the internal costs external as possible even if they do not naturally occur that way. If it will increase profits, the production process will be altered to externalize costs. All of these actions, obviously further maximize profit. In addition to these negative externalities, there are other social costs with which the individual producer is not concerned. If a firm is a price-maker and most if not all firms are, there is purposeful underproduction. As was just shown, this underproduction results in higher costs to the consumer. Further, this underproduction results in a misallocation of resources, particularly in resources being

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underutilized.[11] These externalities, underproduction, and misallocation of resources are called market imperfections or market failures.[12]

These market imperfections are the rule in a capitalistic economic system, not the exception as is commonly believed. The imperfect competition of the market is far from being the perfect competition of the model. By virtue of the extensiveness of market control, there are many transactions desired by the consumer that the market forbids. For example, people need and want to work, but often the market forbids them from doing so because it is not profitable to increase production. The result is high unemployment rates.

Granted, there is the argument that price floors,[13] such as minimum-wage legislation and union- fixed wages, contribute to unemployment. This argument is undoubtedly correct, but it is also undoubtedly correct that unemployment is the logical result when a producer limits production. Competition in the real-world market is not perfect competition, or even anything close to it; it is often cutthroat, non-price, and noxious.[14]

The misallocation and underutilization of resources caused by the market are imperfections, but they are not failures. A failure is not, or should not be, the expected result of the system. This is not to say that an economic

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system must be perfect; that is probably not even possible. The Coase Theorem, which asserts that private and social costs will be equal under conditions of perfect competition, can at best only be considered a standard against which reality can be measured.[15] But it would be hoped that these imperfections would be minimized.

Under the capitalistic economic system, however, these imperfections are not incidental anomalies; they are the rule. These social costs are inevitable when decisions are made by microeconomic units -- i.e., individual firms operating in their own self-interests, with little or no regard for the macroeconomic unit, i.e., the major segments of the entire economy. Further, while it is the macroeconomic unit that must bear these social costs, it is the individual micro-units causing them that enjoy the benefits.

Perfect competition virtually doesn't exist: It is the other market structures -- monopolistic competition, oligopoly, and monopoly -- which are real. And none of them really ever reflects the ideology of the capitalist economic system.

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1. Dolan, Basic Microeconomics, p. 179.
2. Ibid., p. 211.
3. Ibid., p. 231.
4. ibid., p. 366.
5. McConnell, Economics, p. 497.
6. Miller, Economics Today, p. 475.
7. Friedman, Methodology, p. 42.
8. Bowden, Principles, p. 378.
9. Bartlett, Economic Foundations, p. 5.
10. Miller, Economics Today, p. 75.
11. McConnell, Economics, p. 501.
12. Gwartney and Stroup, Economics, p. 683.
13. Ibid., p. 562.
14. Nove, Feasible Socialism, p. 67
15. H.H. Liebhafsky, "'The Problem of Social Cost' -- An Alternative Approach," Natural Resources Journal XIII (October, 1973) p. 633.

Chapter 6**CAPITALISM: MARKET****The Market**

One of the problems with the capitalistic economic system is that the market is not as socially beneficial as it is claimed to be. This chapter will concern itself with analyzing the market in the hope of uncovering what is socially harmful about it.

Capitalism often has been called the competitive free enterprise system or the free market system. In the previous chapter, it was shown that all firms that are not in perfectly competitive industries are price-makers to some significant degree. Under conditions of perfect competition, there are a sufficiently large number of sellers of a product to prevent any one seller from being able to significantly affect supply. But under other conditions, each of the firms can do so; each is able to exercise some significant effect on supply. Such firms are not, therefore, by definition, competitive.

The major criterion that must be met if an industry is to be considered competitive is that each of the firms in it must face a perfectly or nearly perfectly elastic demand curve, if not in the short run then at least in the long run. Some economists have proposed the idea that it is not necessary to have many sellers to ensure competition.[1] Though arguable, this is unrealistic. Though it might still occur in the long run, the current

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financial capitalists have so great a control over the markets that the downward sloping demand curve so dear to the price-maker will not be significantly flattened without exogenous interference.

A major difficulty with the market is that it is dominated almost exclusively by price-maker firms. "Pure [perfect] competition is a relatively rare market structure in our economy. . . . There are few industries which more closely approximate the competitive model than they do any other market structure."[2]

If there are not any industries that fit the model of perfect competition, it would be interesting to uncover the reason why so much effort is expended developing the model. Even though this is the type of activity that should be expected from the "normal"[3] economist, it is not an adequate reason for the activity. The reason most often given is that "pure [perfect] competition provides the simplest context in which to apply the revenue and cost concepts. . . . Pure [perfect] competition is a clear and meaningful starting point for any discussion of price and output determination. . . . A purely [perfectly] competitive economy provides us with a standard, or norm, against which the efficiency of the real-world economy can be compared and evaluated."[4] "Free markets are like an objective ideal."[5]

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Using the model of perfect competition as a "standard," however, is something that is hardly ever done. The system's defenders simply use the conclusions drawn from the standard model of perfect competition to advocate the capitalistic system as a whole. They do this in a world where perfect competition does not exist and never did. Apparently, either the system's defenders' confusion or their self-interest is too strong for them to see these shortcomings.

In any case, the standard argument used to defend the capitalistic economic system is the same as has been used since Adam Smith proposed it: The capitalistic economic system allows each individual to operate in his or her own self-interest, and when individuals do so in a perfectly competitive market structure, the best society results. Perhaps, but there isn't such a world. The defense was inadequate then and still is inadequate. Even to make such a claim is absurd at worst, utopian at best. "Competition was always . . . very imperfect, . . . a dangerous myth." [6] It is just as probable that it never can exist: Most economic actors, operating in their own self-interests in an attempt to increase their security, all too frequently do things that delimit competition. "In the real world, virtually all markets are to some extent . . . 'imperfect' in various ways." [7]

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Whatever else real-world capitalism might be, it is not competitive. The market structure of perfect competition, while it might be competitive, is not real. It is the other market structures -- monopolistic competition, monopoly, and oligopoly -- that are real, and they are not competitive. For all practical purposes, the market of the real world has been based on the design of these other market structures or something similar to them since the beginnings of the capitalistic era. Considering this, it is difficult to understand why anybody ever thought that capitalism was competitive.

"It is a mistake to believe that businessmen [capitalists] actually want a completely free market. It is a natural temptation for them to protect whatever advantages they have"[8] and also to extend them, politically if necessary. Ideally, they seek monopoly for themselves in the sale of their products and seek "a completely free market" if not a monopsony (i.e., the condition of being the only buyer of a particular factor[9]) when they purchase the necessary factors of production. A monopolistic firm will generate a profit from the purchase of an input from a competitive supplier just as it will generate a profit from labor power if the worker is not truly free to bargain, and he seldom is. Buying the factors of production in a competitive market and then selling what is produced in a

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monopolistic market gives the firm the largest possible positive difference between the cost of production and the price charged for what is produced, and hence the largest possible profit. And the factor markets are the most competitive. It is in these markets that there are usually the most suppliers, and hence the most competition.

Everyone seems to understand this. At least one would think everyone should; the literature abounds with enough examples which make it obvious. There is the "inevitable tendency for everyone to be in favor of a free market for everyone else, while regarding himself as deserving of special treatment." [10] "Businessmen who complain about governmental regulations which they don't like are the first to ask for regulations which they do like -- because the latter protect their own interests and penalize competitors." [11] "The Capitalist has two tongues in his mouth; he uses the one at buying, the other at selling." [12] The capitalist fears competition because "the possibility of success will naturally be accompanied by the possibility of failure." [13] "The market [even when it is not perfectly competitive] involves a continual possibility of competitive failure and thus creates basic insecurities." [14]

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Particularly today, with the great size of the modern corporation, "the very size of capital investment [read: risk] makes it necessary not to leave consumption to chance." [15] "As long as the economic security is not guaranteed, it [the individual firm] is likely to function to protect (and out of security, to extend) its own special status-quo interests -- even when they run counter to the broader interests of society." [16] Again, so much for perfect competition and consumer sovereignty. Everyone seems to understand this, but people talk as if the opposite were the case.

The free market isn't free either. "Law [government] is an instrument for the attainment of economic objectives and the economy is an object of legal control. . . . The economy [is] a system of mutual coercion predicated upon an understanding that power is the critical variable for an adequate comprehension of the organization and structure of the economic system." [17] Any economic system, therefore, inevitably is based upon power and coercion.

The capitalistic economic system is said to have been designed to promote the individual. "Individual men are [after all] necessarily the foundation, cause, and end of all social institutions." [18] Yet "as an economic agency, markets establish the opposite of solidarity -- they declare the war of each against all." [19] The market doesn't bring

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out the best in people; it brings out their worst. "There could be . . . only temporary truce."[20] Contrary to the stated purposes of the market system, that is all that there can be, with the few against the many; that's all there ever is.

The free market system isn't a necessary system either. Granted, the world is one of scarcity and therefore one of choice. "Almost all, indeed perhaps all, choice is constrained choice; each person is constrained by the coercive impact of the choices made by others, singly or through collective choice."[21] The market seems to be a natural outgrowth of that constraint and the necessarily constrained choices; it provides a process by which those constrained choices can be made. But the market system is not a natural outgrowth; "the market [capitalism] is [only] one possible institution for coordinating economic activities of disparate groups of people."[22] It is generally assumed that the market is non-coercive; but we now know that it is not.

Everything about the operation of the market economy is necessarily coercive: It is in the very nature of an economic system, regardless of the particular one, to be coercive. "There [is] coercion generic to even a supposedly noncoercive economic system."[23] "Coercion," when used in this way, is a neutral term. Coercion is ubiquitous because

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it is necessary; it is not, therefore, an evil (as it is usually thought to be), "though there is a permanent necessity of guarding against felt abuses."[24]

That our choices are constrained and that many, if not all, of the alternatives faced are givens from among which we must choose is a limitation that confronts everybody. The problem is not, as most people think, one of freedom versus coercion; the problem is how to structure the necessary coercion, which in turn will dictate the structure of volitional freedom. In other words, "the [ultimate] problem is who chooses."[25] Given these circumstances, only if there is total laissez faire can the market be said to be free. Since it is not possible to have a laissez faire government, the market cannot be free.

Further, in spite of claims by capitalistic economists, the free market is not objective. Objective here means that the price system of the market coordinates economic activity such that each item's price is an objective aggregate of the individual buyers and sellers; but the market is not objective. "The word value suggests valuation by or for something, or someone."[26] Each person decides for himself what does or does not have value for him; and ultimately, that valuation is based upon whatever the individual decides to base it upon. There is no universal measure that can be used to decide if the

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valuation is a correct one:[27] valuation is, and must by its nature be, subjective. The best that can be said for the market is that it objectively aggregates individual subjective valuations. Even if the market were free and competitive, it still would not be objective.

Further, the market doesn't give value to anything. All that the market does is to assign an ex post validation of already-present value:[28] Whatever is of value in a particular good or service exists before the market becomes involved. The market only assigns a monetary value to that already-existing value.

Still further, the market's valuation is seldom even accurate; the valuation omits much. The market suppresses "innumerable qualitative distinctions which are vital to man and society"[29] because those distinctions, such as beauty, health, cleanliness, etc., are meaningless to the market; the capitalistic economic calculus just does not consider them. The market does not consider all costs.

In principle, perhaps, this flaw could be corrected, with all necessary considerations brought into the economic calculus. If they were, however, the process surely would conflict with the power of the mutually coercive economy. Because there are those who have been grandfathered into power, who had certain rights before those rights were legislatively or administratively removed and who will do

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whatever they need to do in order to maintain the existing structure of coercion, it is unlikely that meaningful change will ever occur if the current structure is maintained as it is presently constituted.

Neither, in spite of all claims to the contrary, is the market efficient. Efficiency here can only mean that the market quickly provides the information needed to make correct choices. It doesn't do that. Market economists recognize market imperfections. Again, in spite of all claims to the contrary, the unaided market system cannot achieve any position remotely resembling Pareto Optimality. Imperfect competition exists everywhere, as do significant negative externalities and increasing returns to scale. There is also the problem of how the market is supposed to supply public goods -- "goods and services having the properties that (1) they cannot be provided to one citizen without being provided also to that citizen's neighbors, and (2) once provided to one citizen, they can be provided to others at zero cost." [30] To the extent that these market imperfections exist, we should not expect to find any significant degree of Pareto Optimality. [31]

It is difficult, perhaps impossible, for the advocates of the capitalistic economic system to recognize and admit the extensiveness of these market imperfections. Were they to do so, they would discover their economic

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beliefs to be obviously contradictory. They must continue to believe that their economic system best provides for the social welfare.

In any case, "People are social; what happens for each, affects all." [32] The human is a social creature and can develop only in society. [33] "All human activities are social, rather than private in their effects." [34] The system's defenders believe that "a market system obliges its participants to be other-regarding." [35] But it does not. The goal of maximizing profit is at least a major reason that our society faces a plethora of negative externalities.

Selfishness, as opposed to rational self-interest, is another reason for the existence of these negative externalities. The capitalistic economic calculus does not ever demand the other person's benefit be considered, even when the other person's benefit is of overriding significance; the result is an abundance of significant market imperfections.

What ordinarily are recognized as externalities are not exceptions to the market system; they are the rule. Moreover, there are other externalities, also negative, which are not normally considered, let alone recognized. "Markets hide from consideration the actual concrete human costs and gains that accrue from economic activities." [36] They either under- or overestimate the worth of a product to

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the degree that they ignore the effect of the transactions upon the rest of society; the market usually acts as if there were only one consumer. Everyone other than the immediate participants in the transaction is ignored; those who are not immediate participants just don't count. Yet you and I often feel, sometimes quite strongly, the actions and concerns of the other. In this way we can see, in a sense, all goods are public, but this idea is overlooked by a market which does not consider all costs to all those actually effected by a transaction.[39] Since those who are not direct participants in the transaction are not considered by the market, the market cannot be expected to produce accurate prices.

In a market economy, if there is a social cost to the transaction, the participants in the transaction, if they are profit-maximizing participants (which they almost all are) will ignore those costs if the costs are not directly inflicted upon them, or the participants are not somehow forced to bear them.

So markets not only limit their concern to the immediate and directly involved participants, they also set those participants off against one another. "Neither participant is concerned with the human situation of the other." [38] Markets prohibit cooperation as irrational.[39] They "systematically establish false contradictions between

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individual and societal well-being."[40] This is symptomatic of what will later be referred to as the micro- macro problem. In any case, markets embody "individualism of the worse type, [noxious] competition and greed."[41] "In providing for your pleasure, I fleece you."[42]

It should be clear now that the market system not only is not what it is claimed to be, it creates significant social harm as well. If the system is to be adopted, or maintained if already adopted, significant changes are necessary.

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5. Toward the Future, p. 42.
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27. David Ricardo, The Principles of Political Economy and Taxation (London: Dent, 1969), p. 45.
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30. Dolan, Basic Microeconomics, p. 108.
31. Bartlett, Economic Foundations, p. 5.
32. Albert and Hahnel, Marxism, p. 144.
33. Ibid., p. 143.
34. Ibid., p. 256.

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35. Toward the Future, p. 26.
36. Albert and Hahnel, Marxism, p. 263.
37. Ibid., pp. 143-4.
38. Ibid., p. 143.
39. Ibid., p. 263.
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41. Ibid., p. 266.
42. Karl Marx, Economic and Philosophical Manuscripts of 1844 (New York: International Publishers, 197?), p. 148.

Freedom to Contract

Economics texts have chapters entitled "The Supply and Demand for Productive Resources"[1] or "Factor Markets and Marginal Productivity Theory." [2] The labor supply of the individual is thought of in the same terms consumer choice is thought of: It is "a trade-off between two sources of utility -- leisure and the consumption of purchased goods and services. . . . The hourly wage rate can be thought of as the price -- or more precisely as the opportunity cost -- of leisure to the worker," [3] etc.

The worker must be free to contract if the market is to allocate resources adequately; but he seldom is. Property is almost always far superior in strength to labor. This strength allows one sector of the economy (the more powerful one of course) to coerce another sector of the economy. Circumstances such as these hardly can be said to contribute to a superior society. In this chapter, they will be analyzed further.

Besides the inaccuracy of consumer choice theory, labor is not free to contract. Little of what is usually called "freedom" is really voluntary freedom, i.e., "complete autonomy with the absence of constrained choice or limits to choice or behavior." [4] Most freedom is volitional, i.e., "circumstantially limited exercise of choice between alternatives or behavior." [5]

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Voluntary, or complete, freedom exists when an individual's behavior and choices are unconstrained by the behavior or choices of others. Voluntary freedom is choosing between alternatives that you present to yourself, unrestrained by others. Volitional freedom, on the other hand, is choosing between alternatives limited by the presence or actions of others. It is a lesser freedom. In every case where there is more than one person, then, there is, by necessity, only volitional freedom; each person is a constraint upon the other. "This [impact] of the behavior and/or choices of others is coercion, which may take many forms and is generally a matter of degree, but always affects the range and/or degree of possible realization and/or cost of alternatives." [6] Social institutions are arranged or constructed in a certain way, but they need not be as they are. They are not neutral. They are what they are for some reason, and they are often unobtrusive, i.e., that they exist and that they exist as they do are both taken for granted. "Indeed, legal coercion itself is generally unrecognized in the status quo because it is unobtrusive and taken for granted Whatever is perceived as improper is called coercion. That which is not seen as improper is simply accepted." [7]

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Private property is one such accepted institution, unobtrusive and taken for granted. Attacks upon it are seen as improper; it is simply accepted as it is found. But it is not neutral; it is coercive. If you possess private property, you not only have greater volitional freedom concerning actions that only affect yourself, you also have greater volitional freedom in that you can use that private property to coerce others.

The case is even stronger when one considers public government. Whatever else it might be, government, whether private or public, is a proscriptive check upon voluntary freedom; it constrains choice. "Hale means by government the system of power and pressure which has coercive impact on the resultant pattern of volitional freedom." [8] The institution of private property fits this definition. As Samuels says, those who control property have power over others; having that power enables them to govern others just as public officials do. [9] Government, then, includes both the public and the private sectors. Again, so much for the normally constructed assumption of laissez faire.

A new definition of price emerges from this analysis. Price is that which must be paid to release one's withholding capacity. [10] This is exactly what occurs in the bargaining between property and labor. Property withholds its productive capacity from labor until labor agrees to

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sell itself for as little as property can bring it to accept. "'Withholding of what one another wants' as the 'penalty for non-compliance' is the essence of bargaining power." [11]

Granted, the scenario can be presented in reverse -- i.e., labor withholds its productive capacity from property until property agrees to pay labor as much as labor can bring it to pay. There is a major difference, however. The owners of property can survive, even if in order to do so they find it necessary to begin the liquidation of some of their property. They need not use the productive capacity of their property; they can leave it idle and still survive.

Labor, on the other hand, particularly as considered by the Classical theory (i.e., without current governmental programs, which in any case are mostly inadequate for anything except the barest survival), cannot survive without using its productive capacity. Property has the overwhelming advantage in this process of mutual coercion called bargaining.

Labor's so-called freedom to contract is little more than a kind of volitional freedom imposed upon it by power, which is "establishing one's own alternatives and defending against the exposure which one has to others' freedom." [12] To be sure, the process is in some sense bargaining, but it is bargaining between nonequals. Property is much more

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capable in this process than is labor. Labor is not free to contract in any real sense of the word "free."

NOTES: CHAPTER 7

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2. Dolan, Basic Microeconomics, Ch. 15.
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4. Samuels, "Legal Economics," p. 277.
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6. Ibid., p. 277. (Emphasis in original.)
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11. Ibid., p. 288.
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Chapter 8**CAPITALISM: PROFIT****Profit**

It is claimed by those who advocate the capitalistic economic system that individuals seeking profit create social benefits that would not otherwise be created. This version of the "invisible hand" argument also needs defending, but this defense is seldom forthcoming. This chapter will analyze the concept of profit in the hopes that an even more thorough understanding of the capitalistic economic system than we already have can be obtained.

Most people think they know what profit is: the difference between revenue and expenses. However, this concept of profit is correct only if all costs are included. That means that both explicit and implicit expenses are included. Implicit expenses are those "opportunity costs to a firm of using resources owned by the firm itself or contributed by owners of the firm." [1] The costs of these resources are not explicitly included in the company's costs, but they should be. Most people usually think of profit as accountants think of it. They are wrong: neither accountants nor the general public consider implicit costs. Most economists, on the other hand, are quite clear in this area. Economic profit is the remainder of revenue after subtracting all expenses, both explicit and implicit. [2]

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There are several frequently occurring implicit costs of doing business. Among them are labor, time, or other resources contributed by an owner without direct reimbursement. For simplicity's sake, implicit expenses will be limited in this discussion to the opportunity cost of capital, i.e., the amount of interest the money invested in a business could have earned had it been invested elsewhere. These costs must be considered because otherwise the actual or economic profit can't be computed.

This means that much of what the accountant calls profit is no longer considered profit. The omitted amount, actually a cost of doing business, is now called normal profit,[3] i.e., the amount of accounting profit equal to the opportunity cost of capital.

For various reasons, there can be no long run economic profit in perfect competition; for anyone who might have been fortunate enough to have enjoyed them in the short run, competition forces economic profits to zero in the long run. All that can be expected by a firm in a perfectly competitive industry is normal profits. In other words, long run economic profit, in a perfectly competitive industry, will be zero. As strange as this might sound to the uninitiated, this is a well-accepted point by all economists. There is no dissent on the matter.

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There is, however, disagreement between advocates of different systems about whether profit is ever justified. The critics of profit usually complain that profit is a result of the exploitation of labor. "Exploitation exists because the extra value contributed by labor is exploited by the capitalist." [4] "The cause of profit is that labor produces more than is required for its support." [5] Although there undoubtedly are many instances in which profit does arise in this manner, in order to condemn all profit either it must be shown that all profit arises in this way, or it must be explained why profit arising from other sources also is unacceptable. These alternatives are rarely attempted.

Further, many claim that production and any profit that results from it are a function of the society. Based on this reasoning, these critics claim that society has at least some claim on that profit.

In any case, the purpose of this work is not to attempt to resolve totally the problem of the legitimacy of profit; all that will be hoped for is that the question will be explicated sufficiently so that some of the disagreement might dissolve and that which remains will be made clear.

It is a principle of economics, regardless of which system, that the use of everything has an opportunity cost -- i.e., the value of the next most desired but sacrificed alternative -- even if it never can be determined exactly

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what that might be.[6] This "everything" must also include capital, regardless of the mode of that capital's ownership. In other words, there is an opportunity cost of capital regardless of whether the capital is owned privately, as in the capitalistic economic system, or collectively, as in a socialist economic system. Excluding those situations where considerations other than economic ones are involved, nothing will ever be used in an economic situation unless the return from its use is at least equal to that which could be received from its best alternative use. Otherwise, it would be used in the alternate situation where the return would be larger. Capital, therefore, should always expect a profit, a normal one maybe but a profit nonetheless. This is true in all economic systems, even those in which the means of production are owned by the state.[7]

How that profit is distributed is another question. Which factor of production should receive it -- capital or labor? It is usually not profit per se that the antagonists of capitalism oppose, particularly if they understand exactly what it is; it is usually its private appropriation to which they are opposed. In any case, this question will be considered later.

Having explained and, at least to some degree, justified normal profit, it is necessary to address the subject of economic profit and whether or not this type of

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profit can ever be justified. Economic profit can result in several different ways. After they have all been explicated, some of the problems of their justification also might dissolve, depending upon one's values and point of view.

First, economic profit might result from purposeful invention, discovery or use of a new material or process. Whatever that "something new" might be, it is a result of human capital -- i.e., education, skill, etc. -- which is, some correctly argue, a form of labor. That being the case, the resulting economic profits can be justified as a return to labor. Justifying economic profits might not be so easy, however, if the economic profits are the result of an accidental rather than a purposeful act.

Second, economic profit might result from entrepreneurial activities: Someone may observe a social need no one else had seen, and then move to fill it. Again, the new product or service is a result of human capital and might be justified in the same way as was the preceding. A problem might arise, however, were the new good or service created in isolation.

Then there is the economic profit that results from market control, where that market control is not the result of the recipient's own endeavors. An example of this is the windfall profits enjoyed by the oil companies in recent

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years.[8] The oil companies did nothing except control resources and distribution. Yet, when the O.P.E.C. nations increased the price of their oil, the price of all oil, according to the principle of marginal pricing (the principle that all sales take place at the price of the last sale[9]), increased. This resulted in large windfall profits for those who were fortunate to have been holding those particular resources at that particular time. They did nothing to earn it.

This example is clearly distinguishable from the previous ones. Economic profit from such a source should be objectionable to all, friend of the system or foe, because it is contrary to the principles of capitalism, if perfect competition is considered an integral part of capitalism. If perfect competition is not considered an integral part of the system, that it is not should be made clear. If that were ever to be done, however, the capitalistic ideology would lose all of its social force. In any case, this explanation of economic profit does not mean that economic profit from this source should be forbidden, though a good case can be made that it should be. This latter source of economic profit is, however, objectionable; it is contrary to the principles of capitalism, at least as those principles are currently advocated.

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Lastly, there is the economic profit earned by a Boulton, i.e., profit that results from funds invested in somebody else's invention, discovery, or entrepreneurship. This is a much harder case to judge since it involves risk as well as investment. Obviously, there is more here to consider than just the opportunity cost of capital. Not only is there a return for the opportunity cost of capital: there also must be a return to reward the investors for putting their money at risk. This distinction must be made and understood if one is to consider seriously the possible justification of different kinds of profit.

Under certain circumstances, therefore, profits might be justified; if so, they cannot be rejected out of hand as innately objectionable. If they are to be considered innately objectionable, a better case must be made than has thus far been made by the critics of profit.

Even after having distinguished "profit as a reward for enterprise . . . from profit as an accounting system,"[10] the question remains: Under what conditions, if any profits might be justified, and, if profits ever can be justified, what kinds of profits can be justified? "The [usual] fundamental justification for profit rests on a social decision [that was never really made] to confer rewards on those who have resources if they abstain from consuming them in order to invest them in the creation of

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new industries."[11]

On the face of it, this sounds more than reasonable. It was not, however, how capital sufficient for industrial investment really was accumulated. In England, where capitalism first took hold, at least strongly enough to produce the Industrial Revolution, it was to a large degree the activities of the Crown that made the predominance of the wool industry possible. The English Crown knew the value of the country's wool industry to the Crown. It was able to levy high export duties on wool without adversely affecting demand, such was the wool's high quality. The Crown therefore did everything that it could to protect and promote the industry. Naturally, this also resulted in high profits for the industry itself. Little of these high profits were the result of abstaining from consumption. These profits were largely a largess of the times received with the assistance and under the protection of the Crown.

Thus, large reservoirs of capital were created for investment.[12] Yet these large reservoirs of capital were not always forthcoming, because the principle of limited liability was not yet very widespread. As can be seen, there appears to be more to the question of what justifies economic profit than the debatable arguments that profit is a return on capital justified because of foregone or delayed consumption.[13] Abstinence from consumption is little more

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than a convenient fiction of the capitalistic economic system model made popular by its ideology.

Another usual justification for profits is the claim that "the existence (or non-existence) of profits signals quickly whether resources are being used in a creative, dynamic way or in a useful way. As a reward for enterprise, profits signal new creativity and efficiency." [14] They most certainly do not. All one needs to do to disprove this is to look at what modern capitalism has done to our biological capital, i.e., "the irreplaceable capital which man has not made, but simply found, and without which he can do nothing." [15] Modern capitalism is quickly depleting it. This is hardly either creative or efficient, but it does produce economic profit for the capitalist.

Since biological capital is not a direct cost to the producer, the producer treats the return from its use as an income item, rather than as an expense item to be used in restoring it to its previous condition. Restoring capital to its previous condition after use is, after all, what the producer does to what is more normally referred to as capital. Some of the producer's return must be allowed as a depreciation expense, else the capitalist would soon be without capital. Regarding biological capital, however, the producer uses it up in the process of making larger economic profits.

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This is not an argument based on the need to protect the environment, as it might first appear, though it well could be. It is based solely on ignored costs. The costs are there, and the currently used economic calculus ignores them. Further, the current economic calculus is not even capable of measuring those environmental costs even if it were desired to consider them. There is a distinct difference between the short-run costs of the replaceable man-made factors of production and the long-run costs of the many irreplaceable natural factors of production.[16] The current economic calculus does not recognize this difference.

Another claim that is made is that "economic growth is hardly possible without profit." [17] This claim, as were the others, is also debatable. Before this question can be addressed, however, an underlying question must be addressed first: Is growth desirable in the first place? If this question is to be answered, it is again necessary to make sure that all costs (and benefits) are included in the economic calculus. This underlying question will be considered in the concluding section of this work. Anticipating this later section, it can be said that economic growth is possible without profit; in fact, it will be seen to be the preferable method of achieving economic growth.

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Lastly, most agree that "profits must be fairly earned. . . . Their use should benefit mankind." [18] Some say that surplus is not profit but a "social dividend." After all, much of it results from the social gift of limited liability. This strongly implies that a social claim on the results of the activities society allows and encourages is reasonable. In any case, profits seldom are "fairly earned," so there appears to be little justification for most economic profits, at least as they are currently produced.

It appears then that some kinds of profit might be justifiable under certain circumstances. Understanding this will enable us later to further complete the task of this work -- i.e., a real and true analysis of the capitalistic economic system.

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3. Ibid., p. G-9.
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7. Toward the Future, p. 38.

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11. Ibid., p. 40.
12. Carus-Wilson, "The Woolen Industry", pp. 413-28.
13. Toward the Future, p. 40.
14. Ibid., p. 40.
15. Schumacher, Small is Beautiful, p. 14.
16. Ibid., p. 50.
17. Toward the Future, p. 37.
18. Ibid., p. 39.

Chapter 9

CAPITALISM: LAISSEZ FAIRE

Laissez Faire

It appears that the capitalistic economic system, at least as it currently exists, has gained power in government and uses that power in its own self-interests, to maintain its hold on that power. It further appears that if the actions of the capitalistic economic system are to be restrained, only government can do it. Government, then, seems to be necessary if the capitalistic economic system is to function at all, either as it does now or as it might. Therefore, it is necessary to understand fully the relationship of government to the capitalistic economic system.

Milton Friedman says, "The scope of government must be limited. [But amongst] its major functions must be . . . to enforce private contracts, to foster competitive markets." [1] For an advocate of laissez faire, his list of government's major functions is more than just a little strange. He includes government interference in the marketplace as a proper role of government. But he is correct: It is necessary for government to regulate the economy.

Almost everyone agrees that an economic system can not do everything, and does some things wrong; further, most agree that it is government's place to promote whatever is the economic system over which it governs. If people don't

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agree that this is government's place, they at least agree that it is what government does. Further, it is commonly agreed that government should correct those things that the economic system does wrong or can't do at all. This is what now is mostly meant by the term "laissez faire." It is not, however, strictly speaking laissez faire. It is clearly something else.

That does not, however, make it undesirable. Participation in the economy has become a necessary function of government. The amount or degree of that participation is another question. Again, it is one that will be addressed later.

In any case, if the capitalistic economic system is to meet the claims made for it, it must have a government active in the economic realm. Further, the government will be one which operates mostly in the interests of its constituency, as should be expected. Government is, after all, a method of consolidating and exercising power. It appears to be necessary that the laissez-faire assumption previously rejected be replaced by some other principle concerning the relation of government to economy if the capitalistic economic system is to operate in the world as it intends to.

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CAPITALISM: LAISSEZ FAIRE

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1. Friedman, Capitalism, p. 2.

Chapter 10

CAPITALISM: ALIENATION

Alienation

Little needs to be said here other than to present a short synopsis of the matter of alienation to ensure that all understand this phenomenon when they analyze capitalism. For some, alienation -- i.e., the feelings of powerlessness, inadequacy, unfulfillment and estrangement[1] that result from the objective[2] reality of being treated as an instrument, from having human qualities transformed into commodities,[3] from having human ends treated as means[4] -- has come to describe a worker's subjective feeling. The latter is not what Marx meant when he introduced the term "alienation."

"In its objective sense, alienation means powerlessness or lack of control; a person is alienated from something (e.g., a job) if he or she has no control over it." [5] Capitalistic society is so structured that almost all activities and relationships are "essentially independent of individual needs." [6] In a society that prides itself on its individualism as the capitalistic economy does, denial of "life-giving and personally rewarding activities and relationships" [7] doesn't make sense. The individual is almost always, if not always, treated as a means rather than as an end in himself. [8] For all of his social attributes, desires and needs, the individual human is, after all, an individual, and as such

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is an end in himself.

But "human qualities are transformed into commodities." [9] "Capitalism puts things (capital) higher than life (labor)." [10] The result is "the loss of the self in the aimless and unconscious creation of a world beyond the control of its creators." [11] This is, again, an odd result for an economic system that so highly values individualism.

As workers are alienated by the capitalistic production process from their work and from their own essence as human beings, they lose "control over their own humanness -- i.e., their potential for creative work." [12] Thus, the worker is alienated from himself. Further, in so far as the usual capitalistic production process rigidly controls the on-the-job relations of a worker with his fellows and certainly separates the worker from the consumers of the workers' products the worker is also alienated from others.

Whether or not alienation is a product peculiarly of capitalism as some claim, in some way capitalism especially accentuates alienation and makes it widespread. Therefore, alienation is a cost with which capitalism must reckon; but it doesn't. If the reality of capitalism is not to continue to be contradictory to its ideology, capitalism's economic calculus must recognize alienation as a cost.

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1. Herbert Gintis, "The Meaning of Alienation," in The Capitalist System: A Radical Analysis of American Society, written and ed. by Richard C. Edwards, Michael Reich and Thomas E. Weisskopf (2nd ed., Englewood Cliffs, NJ: Prentice-Hall, 1978), p. 275.
2. Richard C. Edwards, Michael Reich and Thomas E. Weisskopf, "Alienation" in The Capitalist System, ed. by Richard C. Edwards, Michael Reich and Thomas E. Weisskopf (2nd ed.; Englewood Cliffs, NJ: Prentice-Hall, 1978), p. 265.
3. Eric Fromm, The Sane Society, New York: Reinhart & Winston, 1955), p. 142.
4. Gintis, "Alienation," p. 275.
5. Edwards, "Alienation," p. 265.
6. Gintis, "Alienation," p. 277. (Emphasis in original,)
7. Ibid.
8. Ibid., p. 276
9. Fromm, Sane Society, p. 142.
10. Ibid.
11. Fromm, Socialist Manifesto, p. 13.
12. Edwards, Reich and Weisskopf, "Alienation" in The Capitalist System, p. 265.

The History of the Corporation

The current overriding presence of the corporation is a recent phenomenon; it has been with us only the last century or so. Prior to this time, the corporate form was basically illegal. There were good reasons for this. The corporate form is an artificial being,[1] a creation of the state. Corporations have brought with them both great achievements and great difficulties. Later in this work, the achievements will be contrasted with the difficulties in order to determine whether the costs outweigh the benefits.

In any case, if perfect competition is the preferable market structure, as so many claim, and the corporate form as it presently exists hinders or prevents perfect competition, then it is probably the case that the present corporate form should somehow be modified or eliminated. It is hoped the information in this chapter will enable us to more easily determine the better course of action.

One corporate form, the "joint-stock enterprise for trading purposes[,] has existed in England from at least 1553." [2] However, the joint-stock enterprise could not become a general movement "until certain economic and legal changes had been effected." [3] The economic changes came with the beginnings of the large-scale and rapid "Industrial Revolution" in the latter half of the eighteenth century; the legal changes were the Registration Act of 1844, the

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Limited Liability Act of 1855, and the Joint Stock Companies Act of 1856. It wasn't until after these Acts of Parliament were passed that the corporate form began to proliferate.

Unincorporated joint-stock enterprise was made illegal by the Bubble Act of 1720. England had just suffered through a disastrous experience, now called the South-Sea Bubble.[4] Because of this experience and others like them, joint-stock companies received the name of Bubbles. During the South-Sea Bubble, large numbers of people, many of whom were government annuitants, lost their fortunes in a mania of speculation. "Men were no longer satisfied with the slow but sure profits of cautious industry. The hopes of boundless wealth for the morrow made them heedless and extravagant for to-day." [5] (This activity is not unlike much of today's speculative investment.) Such social disorder is only one of the reasons why unincorporated companies were made illegal, and a special charter of incorporation was seldom granted.

Even when the South-Sea Bubble was first beginning, there were voices warning against the conditions that allowed it. It was said that "it countenanced 'the dangerous practice of stockjobbing' and would divert the genius of the nation from trade and industry. [Further,] if the plan succeeded, the directors [of the South-Sea Company] would become masters of the government, form a new and

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absolute aristocracy in the kingdom, and control the resolutions of the legislature."[6] This prediction ultimately has largely come true: The current capitalistic and management classes have, as should be expected, great power in the political system.

The results of the South Sea Bubble were that "the disasters of the time probably checked of themselves any tendency of the company-form to spread generally and were a practical demonstration of its possible defects."[7] All companies now were to operate under the English law of partnership, which was judge-made case-law, unless granted a charter by Parliament. This made setting up a large joint-stock enterprise very difficult. Besides the "unlimited liability attaching to each member, . . . [there was] the almost utter impossibility of suing and being sued. [These were always given as] the leading reasons in all petitions for corporations."[8]

The Bubble Act was repealed in 1825. A major reason for its repeal was that the Act was unintelligible. Nowhere was a clear definition of a "company" given. However, the Repealing Act did little to bring forth more firms with the modern corporate form. Nothing positive was proposed. The Repeal Act didn't do anything to liberalize the authorizing of the corporate form. All that was done was to allow the Crown, rather than Parliament, to grant the authorization.

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Just as before, few special charters were granted.

"With this as the state of the law, English firms must have been small partnerships. Large partnerships simply could not carry on. Until the law was changed, full economic development was impossible." [9] Capitalists, not able or inclined to enter business as active partners, had no way of safely investing any part of their wealth in productive enterprise without risking all their possessions. Business as we know it was not going to expand very rapidly.

When the laws were finally changed, one main argument that prevailed was that "much capital was lying idle or not employed to the best advantage. . . . Poor but able men were unable to get support from richer men, for these would thereby risk their entire fortunes. Not every Watt found his Boulton. Capital and enterprise were divorced and both were suffering." [10]

It was "limited liability [that] would open the general field of industry to investments and further national prosperity. [But] limited liability was to be a right by regulations laid down by Parliament" [11] -- the corporation, or the Ltd, is clearly a creation and gift of the state. Limited liability, like private property, is not an inviolable right, as so many presently think.

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It wasn't as if no one recognized the benefits that could accrue to society under the corporate form. There wasn't any prohibition against limited liability under English law. It was just that it was not made easy; in fact, it was made rather difficult. When it did occur, it was usually a matter of a negotiated contract of which all parties were knowledgeable on a first-hand basis. This virtually eliminated actions from ignorance; further, since it is difficult to negotiate contracts between a large number of parties, there was never a market for the shares of these ventures. This procedure, then, virtually eliminated the possibility of blind speculation by the masses.

In any case, a more easily obtainable corporate form was not easily won; there were many who fought against its creation. "One opponent, referring to the Bill of 1856, wrote: 'This Limited Liability Bill ought therefore to be called "An Act for the better enabling Adventurers to interfere with and ruin Established Trades without risk to themselves!'"[12]

In the United States, the corporate form wasn't adopted widely until after the Civil War. Prior to that time, incorporation was considered a privilege granted by the state "chiefly in the formation of . . . some project necessary for the public good, perhaps of such magnitude

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that the risks had to be widely distributed." [13] Corporations were thought of largely as public institutions.

These new laws opened the general field of industry to investments which resulted in national prosperity. The same thing that happened in England also began to happen here in the United States. There was an extremely rapid growth of American industry after the Civil War. [14] Even at the turn of the century, this growth was not showing any signs of abating. In the last decade of the nineteenth century alone, industrial production in the United States had almost doubled. [15]

It was the corporate form that enabled much of this growth to take place. Unlimited liability was no longer an impediment. To become incorporated was becoming increasingly easy. Previously idle capital was now put to work. Along with technological innovations, the corporate form helped foment other changes as well. There were rapid changes in finance capital, and organizational changes. Each fed upon itself and upon the other, resulting in even more spectacular growth. It is doubtful if anything near this rapid result could have occurred without the corporate form

Yet, ever since the rebirth of this modern-day Phoenix from the ashes of the South-Sea Bubble, there have been major problems, particularly the concentration of

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wealth and power. Concentration in industry, in all its forms (combinations, trusts, etc.), became all too apparent in the last quarter of the nineteenth century. While this great industrial concentration brought with it great benefits, it also brought great costs. It was, to a goodly degree, the corporate form that allowed this concentration of industry, of wealth, and of power, and enabled the growth which later was to develop even more fully.

The corporate form allowed -- in fact encouraged -- the large accumulation of capital necessary for the great economic growth that was being made possible by rapid scientific and technological advances. This large accumulation of capital would allow businesses to take advantage of the economies of scale that technology was now making possible.

Economists, therefore, are rightfully very concerned with economies of scale -- particularly decreasing economies of scale where costs per unit of production decrease as total production increases.[16] Businesses began to propagandize the public, and continue to do so, to the effect that the public should be pleased that businesses have become as large as they had. This large size enabled them to take advantage of newly created economies of scale. If business could properly utilize economies of scale, the general public would reap rewards in the form of more,

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less-expensive products, because there would be much lower costs of production. If such economies of scale were not allowed, the buying public would suffer in the form of higher prices for a lesser quantity and variety of goods.

But the claims of business were just wrong, and the economists know it. Firms grew larger than the size they claimed they needed to be; this greater size endowed them with the correspondingly greater economic power, which enabled them even more to control the amount produced and the price charged. Yet, nothing was, or is, done; anti-trust laws and other similiar efforts have been virtually toothless.[17]

Another reason given for forming combinations was to level the ups and downs of the economy. These ups and downs were thought to be caused by the wasteful and harmful competition caused by industrial growth. So much for the belief in perfect-competition capitalism on the part of those who actually were participating in the capitalistic economy.

These participants were not, however, totally wrong in their claims. The economy really was suffering from cut-throat competition. For example, before the Sugar Trust was formed, almost one-half of the existing firms were forced out of that business because of predatory price cutting.[18] The real reason for combining, however, was to obtain the

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additional market power necessary to further maximize profits. Even though microeconomics was at the time only in its infancy, the real world was not. Businessmen were maximizing profit long before economists began to explain their activities to them in terms more complicated than they can readily understand. They searched for ways for their firms to have market structures other than perfect competition.

Analysis shows that few economies of scale were forthcoming from these combinations. For instance, U.S. Steel's cost of production was no lower than that of its smaller competitors.[19] In some cases, there may have been some savings, but (as should have been expected) they weren't passed on to the consumer; They were retained by the corporation in the form of higher profits.

The argument that economies of scale justify this concentration is still being made, but the evidence still does not support this position. Concentration in almost every oligopolistic industry is beyond that needed for efficient operation.[20] Some large firms may have experienced natural economies of scale, but evidence shows that few have grown in this way. Economies of scale were a smokescreen for the increased profits that resulted from increased control over supply. Granted, the advanced level of technology was an important enabling condition, but the

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advanced technology could not have been readily utilized without the corporate form. And, in any case, it was profits that were the motivation, not any desire to produce more, less-expensive products for the general public.

Besides firms having great market control for no justifiable reason, the very size of these firms causes still other problems.

The large size of the modern industrial unit enables it to perform actions the results of which conflict with the ecology. The environment has natural restraints that prevent certain destructive or otherwise undesirable events from occurring. Production motivated solely by the desire for large profits, does not have these restraints.[21] In fact, it creates conditions that destroy or otherwise negatively alter the ecology's natural restraints. The unnatural, by definition, will die in nature if unaided in its fight for survival. Materialism, in its drive for greater profits, aids the unnatural's fight for survival. Material largess grows, at least for some of us, at the cost of environmental damage that affects us all.

Further, large corporate size demands an extremely advanced technology; it greatly hinders the use of a lesser technology even where a lesser technology is logically appropriate.[22] The less-developed nations of the world just are not able, in many cases, to take advantage of

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high-technology production; they have neither the financial capital to buy these high technology capital goods nor the expertise to use them. Yet all too often, in the pursuit of maximum profits, this technology is thrust upon them, to the detriment of both their economic and their social development.[23] They would be infinitely better off were they able to grow more slowly, at a rate more in keeping with their overall needs and capabilities, and in ways less destructive to their natural resources. Yet, the choice presented to them usually is to accept the high technology or to remain as they are.

Lastly, large corporate size aggravates the already too high level of alienation that most people suffer. This large size produces too much activity, most of which is beyond a human scale[24] (that level at which most humans can deal comfortably). It is just not possible for more than a few, if that many, to cope with this heightened level of activity without higher levels of alienation.

It is not necessary here to analyze these additional problems here in any greater detail; it is only necessary to recognize that they are costs. Somebody must; the capitalistic economic system doesn't. Many of these problems are either caused or exacerbated by the corporate form. Therefore, since the corporate form is not a necessary part of the capitalistic economic system, it can

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and should be changed.

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1. John Marshall, Dartmouth College v. Woodward, Vol. IV, Wheaton's Reports, 518, p. 636.

2. H.A. Shannon, "The Coming of General Limited Liability," in Essays in Economic History, ed. by E.M. Carus-Wilson (London: Edward Arnold Publishers, 1954), p. 358.

3. ibid., p. 358.

4. Charles Mackay, Extraordinary Delusions and the Madness of Crowds (2nd. ed., New York: Harmony Books, 1980), Ch. 2, pp. 46-88.

5. ibid., p. 71.

6. ibid., p. 50.

7. Shannon, Limited Liability, p. 359.

8. ibid., p. 361.

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10. ibid., p. 374.

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13. Harold Underwood Faulkner, "Consolidation of Business," in Roosevelt, Wilson and the Trusts, ed. by Edwin C. Rozwenc (Boston: D.C. Heath, 1950), p. 5.

14. Douglas North, "Industrialization in the United States," The Industrial Revolutions and After, Vol VI of The Cambridge Economic History of Europe, ed. by H.J. Habakkuk and M. Postan (Cambridge: Cambridge University Press, 1965), p. 677.

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20. F.M. Scherer, Alan Beckenstein, Erich Kaufer and R.D. Murphy, The Economics of Multi-Plant Operation: An International Comparisons Study (Cambridge, MA: Harvard University Press, 1975)
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SECTION 11

CHAPTER 12

ECONOMIC SYSTEMS: DEFINITION

DEFINITION

In the previous section, capitalism and models of its various market structures were described and analyzed. The capitalistic economic system was found lacking in many areas; the most important of the models, that of perfect competition, was even found to be internally contradictory, and significantly so. It is now necessary to evaluate what has been uncovered concerning capitalism.

Judging requires criteria. In this section the criteria used by economic systems analysts will be surveyed and then analyzed.

The approach of the capitalistic economist is hardly conducive to obtaining a positive analysis of economic systems. "The orthodox [capitalistic] economists accept the capitalistic system as part of the eternal order of Nature [even though it is not] . . . and . . . argue in terms of a harmony of interests between the various sections of the community." [1] This claim of harmony is made in spite of the obvious fact that many of these interests, particularly those of capital and labor, are often diametrically opposed to one another.

Too much of what passes for economic systems analysis, at least when done by the capitalist, is based upon the acceptance of one or more of the unexamined assumptions of capitalism. Particularly important among

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these unexamined assumptions are the assumptions of economic efficiency and growth. Their analyses are therefore prejudiced, ideological beyond repair, and just plain in error. A different approach is required if a positive analysis of capitalism is to be obtained. At the very least, the criteria by which any economic system is judged should be unbiased, even if the system being judged happens to be one a favored one.

Because of their biases, orthodox capitalistic analysts, when they do ask the correct questions, do so only tangentially: And little attention is paid to the answers.

It is necessary to ask these other, less-often-asked questions first, before the more common ones are asked. These necessary questions are the basis of everything else that follows. These questions that are normally asked first are important ones, to be sure, but if anything significant is to be learned from asking them, they must be asked in light of, and secondarily to, other more important questions.

At least one of the reasons for studying and analyzing economic systems is to contribute to the improvement of the human condition. A particular system might be the best one or one which one might have some better qualities that can be adopted. It is the contention of this work that the primary end of economic system

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analysis is to enable economists to suggest changes that could improve the human condition. In this chapter, the inquiry will be into what economic systems analysts do, why they do it, and why the very nature of their procedure makes success unlikely.

Many important questions that need to be asked regarding capitalism and economic theory were discovered in the last section; hopefully, other questions necessary for an adequate analysis of capitalism (adequate at least from the perspective of this work) will be discovered in this section. This section will focus upon what economic analysts do. The results of this investigation will then be contrasted with the already uncovered short-comings of capitalism.

Just as it has been difficult to define capitalism, so is "the concept of an 'economic system' almost impossible to define exactly." [2] As with most complex concepts, "there exists no unique, commonly accepted definition of an 'economic system,' nor is there an objective way of delineating that part of the total social experience to be described and analyzed under this topic." [3]

A few representative definitions follow:

1. "An economic system is an evolving pattern or complex of human relations which is concerned with the disposal of human resources for the purpose of satisfying

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various private and public needs for goods and services."[4]

2. "An economic system is a set of mechanisms and institutions for decision making and the implementation of decisions concerning production, income, and consumption within a given geographic area."[5]

3. "An economic system, in essence, is a set of relations among decision-makers and between decision-makers and economic variables. It consists of the sum of ideas, goals, methods, and institutions used in society to resolve these economic issues in some more or less organized or 'systematic' way."[6]

These definitions of "economic system" are probably as good a set of definitions as there are -- although the last one is circular! Others can be found that are equally good,[7] but none of them makes any substantial improvement to those given above.

All of them, however, have a great flaw: None of them directly says anything about a complementary or controlling political system. In one way or another, though, they all realize that economic theory cannot be separated from political theory. Most of the authors do, therefore, consider political theory in their analyses, to varying -- but usually inadequate -- degrees. The first definition speaks of a "complex of human relations"; the second refers to "institutions for decision making"; the third speaks of

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"a set of relations among decision-makers." They all acknowledge that "economic outcomes are influenced by social, economic, geographical, and random forces,"[8] as well as political forces. Uncertainty as to how economic theory is to deal with political theory is a major reason why it is so difficult to adequately define an economic system. If economic theory relies too heavily upon political theory, economic theory soon ceases to be economic theory; often the distinction is just arbitrary anyway. In any case, an adequate definition of an economic system is still necessary. Defining economics, on the other hand, is not all that hard. Economics merely studies behavior when humans have to choose among scarce resources.[9] Since all resources are scarce, the human is always choosing.

However, economic activity is not fully defined by these necessary and important conditions. To be meaningful, the definition of economic activity must refer to those activities that are usually considered to be economic -- i.e., production, consumption, distribution, etc.

The more difficult problem is how economic theory should deal with the political. The chief aim of the state is to enable people to live together.[10] Sometimes this involves economic matters, but not always. Economics involves choosing the best available known alternative, just as does politics; but economics only involves choices of

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certain kinds. Political activity is much more extensive.

Obviously, the political is not economic and the economic is not political. Since economic systems and political systems deal with different (even if sometimes related) things, the definition of one cannot include the definition of the other. Being clearly different disciplines, at least on the conceptual level, the political, not the economics, should be considered primarily by political science, and economics the economic rather than the political. The key word here is "primarily." In the real world, each affects the other so greatly that there is not any alternative other than that each must consider the other.

Initially, however, each must be excluded from the theory or model of the other. The model for each discipline has to be constructed considering only the features characteristic of the subject matter with which the discipline is primarily concerned.

The economic model is intended to explain the economic. It should refer to the political only where absolutely necessary. For the purposes of model building therefore as well as conceptualization, the two disciplines will be kept as distinct from one another as possible.

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Further, it is also doubtful if a more complex model could be developed and still hope to explain what needs to be explained in simple, and adequate, enough terms. To a goodly degree, that is what model building is all about. Models can be either explanatory or predictive; the concern here is with explanatory models.[11] They are supposed to be constructed without much reference to the real world -- by the stripping away of everything that is not considered essential to the model. Anything more is considered unnecessarily complicating.

The purpose of a model of an economic system, at least of a basic explanatory model, is to enable that particular economic system to be taught and explained more easily. But the model still must be representative of the real world if it is to help explain the real world. It just is not possible to exclude the political from economic theory if any semblance of reality is to be maintained. While the two disciplines are different, there is a large overlap.

The solution to this apparent dilemma is not that difficult to find. Some economists even act as if they have an adequate understanding but have neglected to let the rest of us know what it is. Economic questions, at least at the level that this work is considering -- i.e., questions of economic systems applicable to the real world -- are able to

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be realistically answered only in the political world.

That really isn't a problem. Once the model of each discipline is developed, each discipline can use the model of the other when it is required: There will be times when it is essential to do so. Both models can then be brought together and applied jointly. Care must be taken, however, to clearly indicate when this is being done, if confusion is to be avoided.

In light of the above considerations, it is possible to more easily distinguish between economic theory and political economic theory. As has been shown, economics deals with scarcity and choice. An economic theory sans politics is a conceptual system of organizing the economic activities constrained only by scarcity and choice. It must address certain economic questions: (1) What shall be produced? (2) How will goods be produced? (3) For whom will goods be produced?[12]

Economic activity can be and is advanced or constrained politically, and this can only be done in the real world. Political economy is the implementation of an economic system in the real world. An economic theory, on the other hand, can be created abstractly; it does not need the real world.

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In any case, a particular economic theory might be empirically impossible, either having unrealistic assumptions or being defined in such a way that it literally defines reality out of existence. It might be so constructed as to have mutually exclusive goals, or contain some other contradiction, so that when an attempt is made to introduce it into the empirical world, that introduction is found to be impossible; the only way that the system can "exist" is conceptually.

Sometimes it is possible that something positive might result from this kind of economic theorizing, but a system that possesses such a flaw should not be proposed as one that should be applied to the real world. This is, however, done: It is what the capitalistic economist does. What is to be analyzed -- a model of a "pure" economic system, or a model of a system of political economy? Each has its difficulties. The "pure" economic system usually ignores much of the real world. The theory of political economy, on the other hand, can be so political that the substance of the economic is substantially eliminated from the model.

Again, detailed analysis and comparison is required. The next chapter will investigate the methods currently used by economic systems analysts.

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11. Bartlett, Economic Foundations, Ch. 1.
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Approaches to Economic Systems Analysis

There are two major approaches to economic systems analysis: (1) the analysis of a theoretical economic system, usually, of course allowing for the inevitable political overlap, or (2) the analysis of existing political economic systems. Naturally, there are also many variants and combinations of these two major approaches. There are those that analyze economic theory sans politics, and there are those that analyze existing political economic systems paying hardly any attention to the underlying economic theory. The number and complexity of these variants is overwhelming.

For the sake of clarity the task of explaining economic systems analysis will be kept as simple as possible. The major emphasis will be placed upon the major approaches. Possible combinations and variants should be obvious.

The first approach most often begins with a detailed explanation of the model of the economic system being considered. Most often, it is either a model of capitalism or of socialism of some kind or another. The analyst usually attempts to evaluate the system according to previously ascertained criteria.

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The second approach is concerned with existing political economic systems -- e.g., the relatively industrialized command economy of the U.S.S.R., the mixed monopoly capitalism of the U.S.A., the relatively agricultural and rural command economy of The People's Republic of China, the somewhat worker controlled socialism of Yugoslavia, etc. These political economic systems also are evaluated according to previously ascertained criteria.

There are difficulties with both of these approaches. Adhered to strictly, each results in an incomplete analysis. Even when the inevitable political overlap is taken into account, the analysis of a theoretical economic system most often allows only for a theoretical political overlap. This is rarely adequate. Although a political economy, even a theoretical one, is usually based upon some theoretical economic model, and it is therefore reasonable to expect that the resulting political economy will be somewhat in line with that economic model, there are usually large differences. between theory and reality. For instance, it is to be expected that an economic model that advocates competition will result in a high level of competition in the real world, but it seldom does. There are always the usual reasons and excuses for these differences, but large differences between theory and reality remain nonetheless.

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The problem most often faced by the second approach, the analysis of existing political economies, is that its analysis is geared toward the professed model of the political economies being examined, usually considering only whether a particular system achieves its stated goals. The analysis seldom considers the justification for the theoretical model upon which the existing political economic system is based. Unless the theoretical model is obviously contradictory, impossible, etc., that part of the analysis almost always is completely ignored.

To avoid the appearance of these all too frequent results, most analysts using one approach usually borrow some portion of the other approach, often unstated, and usually only in a vague way. The result is that neither approach is often used all by itself. Of course, this just further complicates the analysis of economic systems analysis.

Several books on economic systems analysis were reviewed for this chapter. Because there are so many variations of the two major approaches and because these variations overlap so much, it is difficult to accurately categorize them. Only a select few, therefore, will be reviewed so that the discipline's methodology and the difficulties of the methodology might more easily be seen.

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Economic Organizations and Social Systems approaches the analysis primarily from the perspective of theoretical economic systems. Dr. Solo does not ignore either the inevitable political ingredient or existing political economic systems, although he doesn't pay very much attention to the latter. Even though Dr. Solo's comparison of his theoretical models to existing political economic systems is not done in the great detail that some other authors use, his models are far from being unrealistic. He considers existing political economies sufficiently, so that all the theoretical political economic systems he develops are relatively practical. The political is included in his analysis.

Dr. Solo pays close attention to the probable ramifications, both favorable and unfavorable which most likely would follow from the application of each system. These probable ramifications are derived from the models using a methodology that is rigidly positive; further, the application of this methodology is rigorously logical and as practical as theory can be. For example, he shows that a decentralized economy, one where most or all economic decisions are made at the individual level, will most likely have many problems at the macro level of the economy because of the way economic decisions are made.

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The reason for this probable result is a logical one: individuals, as a rule, operate in their own self-interests, ignoring negative externalities even when known. The interests of the whole economy, therefore, are mostly ignored, and the existing problems are even compounded. In a centralized economy, on the other hand -- one where most or all decisions are made by a body that has effective control, chosen democratically or otherwise, over the individuals -- decisions are supposedly made in the interests of the economy as a whole. While this approach theoretically eliminates many of the macroeconomic problems, it compounds microeconomic ones. Further, this approach obviously reduces both the status of the individual and the individual's freedom. The benefits that result from one system's approach often create or aggravate difficulties that are minimized in the other. Dr. Solo's analysis, both theoretically and politically, is a thoroughgoing, positive one; his analysis is seldom, if ever, normative.

Comparative Economic Systems approaches the problem from a similar perspective, but the emphasis is quite different. Dr. Carson describes the various economic systems, though not as "pure" systems, as Dr. Solo did. Dr. Carson's approach is geared towards real systems, though not any one or several in particular. Like Dr. Solo, Dr. Carson does not ignore the political, either

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theoretically or practically. His stated purpose, at which he is successful, is "to derive 'a spectrum of economic systems,' to shed light on the differences and similarities between economics that the capitalis-socialist dichotomy tends to blur." [1] He realizes that the ideological issues needs to be defused, and he attempts to do so. Dr. Carson also pays more attention to existing political economic systems than does Dr. Solo, but this is far from his main thrust: His attention to them, compared to some of the other works that will be looked at, is really quite minimal. He does only enough to shed a little light on the differences and similarities. His main interest is in the economic model itself, though he does not seem to be as concerned about the theoretical limitations of "pure" systems as is Dr. Solo. In any case, Dr. Carson mostly succeeds in his similar, but more than slightly different, approach of considering primarily political economic theory as opposed to existing political economies.

A Theory Of Economic Systems takes a more radical tack. Dr. Gottlieb seeks out the nature of historical economic systems. He attempts to uncover some of the historical reasons why existing economic systems developed as they did. His basic concerns are "(1) treatment of change in culture, institutions and technology; (2) ways in which separate economic systems may be drawn into meaningful

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multi-national gestalts or orders; and (3) problems of system classification." [2] Though he doesn't analyze theoretical economic systems per se, he does show how historical economic systems developed theoretically. He cannot, therefore, ignore the political; he is much concerned with "functions of the state in the economy." [3] He does little, however, with existing political economic systems; he is more concerned with their historical development. His approach is a sort of middle ground between the two different approaches to economic systems analysis.

Capitalism or Worker Control?: An Ethical and Economic Appraisal is also concerned with models of the two major economic systems, but from a totally different perspective. Dr. Schweickart raises "the normative question, what socioeconomic structure best accords with current capabilities and a certain set of widely shared values?" [4]

Dr. Schweickart looks at the criteria of efficiency and growth, as do other more mainstream analysts, but he does not do so in the same way. He questions whether capitalism is efficient; he questions, as this work will, what "growth" means and whether it is desirable. He speaks of feasibility, again as this work will. In short, Capitalism or Worker Control? is not of the mainstream.

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Its primary concern is to show that a socialist model, at least the model the author has constructed, is superior to the existing capitalistic system based upon the normal criteria and should therefore be adopted. Dr. Schweickart is on the right track, but he omits several important considerations which this work will address in the final section.

The other major approach, as has been said, is to concern oneself primarily with analyzing existing political economic systems -- to look at real political economies in the world. Comparative Economics: National Priorities, Policies and Performance, among others, follows this approach. (Since all the books that take this approach are basically the same, only two will be considered. It should not be concluded, however, that there are fewer such books than of the works using the first approach. In fact, there are more of them.)

Though Dr. Amuzegar does consider theory, he does so only briefly. Primarily, he is concerned with existing systems. Others who follow this approach follow it in varying degrees. For example, in Comparative Economic Systems, Drs. Gregory and Stuart, before devoting the major portion of their attention to existing political economic systems, discuss the theory of capitalism, the Marxian critique, and the theory of socialism, though nowhere near

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in as great detail as did Drs. Solo, Carson, and Gottlieb. Gregory and Stuart probably give theory the most consideration of any who take the approach currently being considered.

Of the two approaches to comparative economic systems analysis just looked at, the one approach most frequently used is the study of existing political economies and their ability to provide economic growth, judged primarily by the criterion of economic efficiency. The major approach to this subject is important because the choice of approach surely will influence, if not determine, the results of the inquiry. Just analyzing existing political economic systems, while important, doesn't often tell us much about the theory of economic systems.

More importantly, this approach just doesn't ask the questions that need to be asked. In fact, the wrong questions are asked all too often. This is not to imply that this approach results in unnecessary work; it doesn't. Without question, it is valuable in many ways; theory that ignores reality isn't worth very much.

The alternate approach -- i.e., the analysis of models of political economic systems -- has much more to recommend it, even though this approach is also lacking (though to a lesser degree). To be sure, analysis of "pure" theory alone probably will not yield results of any

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significance, but one must still have a clear understanding of theory if one is to do what needs to be done in the real world. That was, after all, the original aim of political economy, and it's not any different now. Economic systems analysis must explain the real world in terms of theory that recognizes the constraints of the real world.

As should now be apparent, both of the two major approaches just considered are extremely important. However, it is necessary to go beyond them. In that process, it will be discovered how each of them fits into the alternative approach this work will develop. Next, therefore, this work briefly will look at how economic systems analysts analyze economic theories (when they analyze them at all).

Analysts supposedly attempt to describe what is -- do a positive analysis. But they often don't succeed. For analysis to be considered positive requires, at the very least, that the describers have mostly rid themselves of their culture's ideological baggage; but they seldom have.

More important, however, is the absurd claim that because an analysis is a positive one (assuming that it is), the system analyzed should be adopted because it is a positive system. The model of the economic system analyzed in a positive manner may be a positive model, but it needn't be; to say that a positive analysis makes that which was

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analyzed positive is a fallacy. This argument mistakenly transfers a trait of the analysis to the subject analyzed. One can give a positive analysis of capitalism as it is hoped this work is doing, but that doesn't make capitalism value free. Much more must be considered before adopting an economic system than a positive analysis of it. If an economic system is to be considered a positive one, it must stand the scrutiny of a positive analysis.

But that scrutiny is far from being sufficient. Even more disastrous than adopting an economic system under the mistaken impression that a positive analysis makes it acceptable for adoption is the more-frequent situation where an economic system is adopted under the mistaken impression that the normative analysis is a positive one. Few presentations of an economic system by advocates of that system are value free; almost all of them are laden with mistaken ideology. Much of their analysis, when done at all, is done against a predetermined and unanalyzed standard.

What is wrong here is that the analysis of existing systems is done almost totally without any consideration of the underlying basis for that analysis. The performance criteria used in the analysis must themselves be analyzed; but they are not. Some seem to recognize this problem, but do little about it.

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The recognition and, it is hoped, at least partial overcoming of this shortcoming is the purpose of the next chapter. Contemporary economic systems analysts ask the wrong questions, at least the wrong initial questions; others need to be asked first. These wrong questions will continue to be asked as long as the questioner is not aware that there are other, more important initial questions.

NOTES: CHAPTER 13

1. Richard L. Carson, Comparative Economic Systems (New York: Macmillan Publishing, 1973), p. vii.
2. Manuel Gottlieb, A Theory of Economic Systems (Orlando, FL: Academic Press, 1984), p. x.
3. Ibid., Ch. 6.
4. David Schweickart, Capitalism or Worker Control? An Ethical and Economic Appraisal (New York: Praeger Press, 1980), p. ix.

Analysis of Criteria

Almost all of the economic systems texts examined took the same methodological approach, although they may have had different emphases. They analyzed and compared economic systems, whether theoretical or existing ones, by asking the wrong questions. First, they assumed that certain goals were desirable -- primarily economic efficiency and growth. They realized, of course, that sometimes not all goals can be achieved simultaneously; some might have to be sacrificed in order to reach others.

One analyst suggests that performance of economic systems -- either models or actual cases -- can be evaluated "in terms of a number of criteria or 'success indicators,'" [1] -- a list of goals that a particular economic system must or should reach or approximate if that economic system is to be evaluated highly. Balassa's approach is undoubtedly a correct one. Most analysts, if not all, use some kind of success indicators, even if only implicitly. However, their criteria are seldom adequately defended. In almost all instances, the analysts do little more than assume that certain goals are desirable.

Balassa "distinguishes and analyzes five success indicators: static efficiency, dynamic efficiency, growth, consumer satisfaction, and income distribution." [2] Most other economic systems analysts agree with these success

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indicators, though some analysts add others, among which are composition of output, stability, adaptability to change,[3] allocation, and the position of the individual within a system.[4] Depending upon the approach of the analyst, some of these criteria may differ or overlap, but in general those listed are the ones most often used by most analysts.

The criteria themselves, however, all need to be analyzed before they are accepted for use in the analysis of an economic system. This is particularly true of economic efficiency. After all, the result of an efficient economic system is said to be economic growth. For some authors, this is the exclusive, or almost exclusive, criterion; it is almost as if they are all caught up in the fantastic material growth of the Industrial Revolution.

Regardless of any other differences there might be between them, most analysts compare the results achieved by a particular economic system with the results proponents of that economic system say should be obtained. They maintain that this type of comparison is adequate because it is not their place to choose the goals for any economic system; they should only observe whether the goals selected have been achieved. The assumption is that if its goals have been reached, or at least largely so, the economic system in question is a relatively successful one, at least when compared to another economic system which might be less

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successful in obtaining its goals.

At this point, it will be helpful to look at the above-mentioned criteria used in the comparison and subsequent judgment of economic systems.

Static efficiency. "The concept of [static] efficiency refers to the effectiveness with which a system utilizes its available resources at a particular point in time;"[5] it "requires an economic system to be operating on its production possibilities frontier curve."[6] Ceteris paribus, if static efficiency is the only criterion under consideration, there isn't any question that an economic system that achieves a high amount of static efficiency is preferable to an economic system that only attains a lower amount.

Ceteris paribus conditions, however, seldom obtain in the real world. Though static efficiency is most certainly a very important consideration when evaluating an economic system, it is not a sufficient one. Further, the claim that an economic system that achieves a high level of static efficiency is desirable needs defending: It is necessary to consider the costs of achieving a high level of static efficiency. Moreover, much more than just achieving a high level of static efficiency is necessary if an economic system is to receive overall high marks as a superior or better economic system: There are other criteria which also

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must be met.

Dynamic efficiency. This term "refers to the ability of an economic system to enhance its capacity to produce goods and services over time without an increase in capital and labor inputs." [7] Examples are the discovery of crop rotation, the application of the bronze casting technique to iron, the specialized techniques of the "pin factory," etc. Dynamic efficiency extends the production possibilities frontier curve outward to the right through innovation and/or invention.

It was this condition of the capitalistic economic system that so enthralled Joseph Schumpeter. Only capitalism, he said, could so improve the living conditions of the working class. "The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort." [8]

Again, this criterion cannot be accepted as sufficient in the evaluation of an economic system. There will always be other factors involved. Further, dynamic efficiency is not a necessary condition. It is clearly possible for an economic system to make marginal improvements in other areas such that the results obtained are superior to those that a more dynamically efficient

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economic system might obtain.

There are obvious cases -- e.g., an underdeveloped economy -- where dynamic efficiency is highly desirable, if not absolutely necessary. It is possible, in fact true that in some underdeveloped countries, even if economic and social activity is as statically efficient as possible, there are still too few goods and services being produced for even simple survival. It is obviously necessary in such cases to seek an expansion of the production possibilities frontier curve. Dynamic growth (or extensive growth, which will be explained shortly) can be absolutely necessary in such conditions. That a high level of dynamic efficiency is essential in the setting just described does not, however, make it essential in an already highly developed economy. If that claim is made, it will need to be defended.

Whether dynamic efficiency is ever desirable in a fully developed economy, and if so under what conditions, is a question that must be considered but seldom is. For an economic system to achieve dynamic efficiency, costs must be paid. An obvious cost is structural upheaval. Growth, especially rapid growth, can cause unforeseen and sometimes disastrous changes in the social and political fabric, as well as in the economy. Before a society decides to encourage a dynamically efficient economic system, these costs should be evaluated relative to the benefits obtained.

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Again, this is seldom done.

Growth. This is "a sustained upward movement in the aggregate level of output (or output per person)."[9] Economic growth is not the same as dynamic efficiency,[10] though it is easy to confuse the two, because dynamic efficiency results in increased economic output.

Economic growth can come about in several ways, or of course any combination of them. First, it can be a result of intensive economic activity. Intensive growth is "increases in factor productivity,"[11] i.e., a better way of doing something without increasing the amount of resources consumed. For all practical purposes, intensive growth is the same thing as dynamic efficiency; it is just a different way of classifying it.

Secondly, economic growth can be achieved through extensive economic activity -- i.e., "by expanding the amount of labor [or another factor] but using that labor [or other factor] at a constant rate of effectiveness." [12] In a fully developed economy, however, "these extra inputs are likely to incur sacrifices in the forms of time not previously allocated to production and goods previously allocated to current consumption." [13] In other words, when a high level of static efficiency exists, extensive growth has as its opportunity cost either decreased leisure or decreased consumption, or some combination thereof.

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Therefore, while this phenomenon might be called economic growth, it can hardly be referred to as overall growth, since sacrifices equal to the economic growth must be incurred in other areas.

Lastly, economic growth can result from "an outward shift in the production possibilities frontier curve caused by an increase in available resources." [14] This is different than intensive growth, which expands the production possibilities frontier curve without an increase in resources.

These different ways of expanding production cause many analysts to become confused. It is said that there is economic growth whenever the quantity produced increases. But this is not necessarily true, for several reasons.

First, increased production can come about because of an increase in static efficiency. Ceteris paribus, this is undoubtedly desirable, but it is not economic growth as defined by the economic systems analyst; it is static efficiency.

Second, increased production can come about through extensive growth. Again, while such increased production may be necessary because of exigent circumstances, it still is not what is meant when it is said that economic growth is desirable.

Third, increased production can come about through intensive growth. Subject to conditions which will be considered in the concluding section, this increased production can be a large benefit to society, though it isn't always.

Finally, increased production can come about because of an increase in resources. Again, as will be shown in the concluding section, under current conditions, this type of economic growth is not always desirable.

Often, the term economic growth is used incorrectly, even by trained economists. All or any number of the aforementioned types of increased production are collapsed into one. The first two situations are not economic growth; of the last two, only one -- that which results from an increase in resources -- can be, unless dynamic efficiency is to be lost as a concept: It cannot be both economic growth and a cause of economic growth. In any case, the concept of economic growth is a complicated one.[15] As a criterion, it needs to be analyzed in some detail before it can be accepted as desirable to have or to seek.

Consumer satisfaction. This is achieved when, subject to their available resources, individuals are able to maximize their utility -- "the ability of a good to satisfy a want"[16] -- and to have the freedom such that there is "(1) correspondence of production targets to individual

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preferences; (2) correspondence of actual saving ratio to the saving ratio desired by individuals; (3) correspondence of actual work performed to individuals' preference for work versus leisure." [17]

Balassa says that, while the indicators static efficiency, dynamic efficiency, and growth are value-free, the indicator consumer satisfaction might be seen to introduce a subjective element into the analysis. [18] In fact, it need not. It is the value which is placed upon the criterion that is subjective, not the criterion itself.

What Balassa probably means is that deciding what should be produced to create a high level of consumer satisfaction introduces a subjective element into the analysis. The issue of consumer sovereignty is a different question: Should consumers decide for themselves what they want produced, or should someone else decide for them? It appears that consumer sovereignty should be among the criteria used for analysis and comparison if the concept of freedom is to mean anything at all.

Income distribution. This is the way an economic system determines for whom products and services are to be produced. [19] Whatever decision is arrived at or whatever decision-making process is used, the final determination will seldom if ever satisfy most, let alone everyone. The issue of equitable economic distribution is frequently

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fought over, even outside of the economic discipline.

As should be expected, the capitalistic economist has what he maintains is an adequate answer to this question: He advocates that each factor of production receives its marginal physical product, i.e., the change in revenue that results from the increase in total product when an additional unit in a factor is added to a production process that is already in existence.[20] In practice, this will prove difficult, since "there is no way in which the 'marginal productivity' of any factor can be determined independently of the contribution of other factors.[21] The concept appears equitable, but it need not ever be and seldom ever is. The most powerful factor usually receives "more" of its marginal physical product than a weaker factor does. The prior distribution of resources also affects current distribution of income. Obviously, if the prior distribution was not equitable, it is unlikely that the current distribution will be.

Composition of output. This is the portion of the gross national product which each sector of the economy receives. It is important to consider the amount of production relegated to the public sector as opposed to the private sector, to investment as opposed to military programmes, etc.[22] This criterion differs from distribution of income in that it considers collective

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consumption (those sectors of the economy usually considered by national income accounting), which is usually not considered when referring to income distribution. The criterion of the composition of output can be accepted readily.

Economic stability. This term refers to the absence of "the fluctuations upward and downward in the overall level of [economic] activity." [23] This criterion is a major concern of the economic public policy of the United States. The government strives for slow-but-steady economic growth, high employment, and stable prices. Ceteris paribus, with the possible exception of the already mentioned possible difficulties with economic growth, this criterion is also obviously acceptable.

Adaptability to change. This is the existence of "well adjusted mechanisms in the system that help it adjust to changing circumstances without endangering the basic working of the system; [without these mechanisms,] the economy will either become stagnant within an obsolete institutional framework or be hit by abrupt changes of a revolutionary character." [24] On the face of it, this appears to be a desirable criterion. From the perspective of this work, at least, it is necessary for an economic system to allow for both dynamic change (i.e., innovation and invention) and static change (i.e., marginal

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improvements in the existing system) if frequent contradictions in the system are to be avoided. Without the ability to allow for change, an economic system often will confront situations where the new is in severe conflict with the old.

An example of failure to adequately allow for change is the tendency of existing social structures to remain as they are even when changes are being made within them. Sometimes the need for change is so great that it is obvious to everybody, but those who have systemic advantages want to be grandfathered in. No one new will be allowed to have these advantages, but those who already possess them will not surrender them even though they might be causing great harm.

It is not very realistic to expect a system to allow for changes other than the normal Kuhnian changes -- i.e., the working out of the system. As has already been shown, Adam Smith, John Locke, and Paul Sweezy, among others, have told us that the highest purpose of the state, and of the economic system it controls, is the protection of the interests of those who are in charge and who thereby benefit from the system. Further, neither a political nor an economic system can make provision for changes that are contrary to its basic characteristics and goals. It is not rational, therefore, to expect that too much change will be

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allowed for.

Naturally, it is desirable that a system, economic or otherwise, protect itself from destruction by allowing for marginal change. The benefits gained and the costs avoided by allowing for these potential changes are cheap at half the price. If this is all that is meant by adaptability to change, however -- and it is all -- it doesn't mean much.

The position of the individual within the system.

"Individual security and satisfaction comprise more than merely freedom from want and fear, although these are important. They include freedom to do things, to resist things, to think and say things--even to make a fool of oneself." [25] The criterion of consumer sovereignty usually is advocated because the advocate favors economic freedom. The criterion of the position of the individual in the system goes beyond economic freedom: It includes political freedom as well.

Admittedly, this criterion is more concerned with political economy than with pure economics. However, I consider it the most singularly important of all the criteria by which an economic system is judged. If one cannot have political freedom, great economic achievements are without much meaning.

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The political freedom of the individual is of overriding importance. Any economic system that does not respect the political and social rights of the individual, or have them as its immediate objective (at least as they have been determined in relationship to the rights of the collective), is automatically rejected out-of-hand by this author.

The normal criteria for judging an economic system are inadequate, particularly since several of them are not well understood -- even by the economic systems analysts themselves. The capitalistic economic system is advocated as a superior one because it is efficient and is capable of a high level of economic growth. Both of these claims are debatable, and if they are to be used as criteria, they must first be proven. More is needed than a concept of technical efficiency and unrestrained growth that doesn't consider all the costs of growth. Using these criteria alone leads to a failure to ask the correct questions.

In addition to analyzing theoretical economic systems, it is necessary to analyze existing economic systems: After all, they exist in the world. It is an important analysis to do. What needs to be done first, however, is to analyze the economic theory in light of its consistency with itself, with overall economic theory, and with the ends of a rational society. The goal in all of

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this is to improve the human condition.

Further, an economic system cannot be analyzed in an apolitical vacuum. An understanding of the relationship between the economic system and the political system is essential. Still further, it must be remembered that both government and economy contain coercive elements.

As with economics in general, an evaluation of an economic system must consider the costs and benefits of what it does, regardless of the criteria used to judge or measure it. For each of the criteria presented in this chapter, costs must be paid in return for any benefits derived. These criteria must be considered both individually and in comparison to each other.

Static efficiency can have costs (alienation) that are much too high to pay. Growth and dynamic efficiency are often confused with one another. Consumer satisfaction and consumer sovereignty are not the same thing. Consumption is the end of all economic activity, not efficiency of whatever kind. Equitable income distribution, whatever that ultimately might be decided to be, cannot be ignored. For example, if labor is the source of all socially created value, it can reasonably be argued that labor should receive all socially created value. Lastly, the position of the individual in both the economic system and society at large is of paramount importance. The purpose of the collective

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is to enhance the status of the individual. The human is a social creature; it gathers into groups in order to create opportunities for individuals to better themselves. An institutionalized social system, economic or otherwise, has no other legitimate purpose.

It should now be clear that an economic system is influenced by everything.[26] Even though every attempt has been made in this work to stay strictly in the field of economic theory, it has not always been possible. From now on, it will be even more difficult to operate within this constraint. In this work, I am looking for something possible and feasible. It will be necessary, therefore, that this inquiry become more one of political economy.

NOTES: CHAPTER 14

1. Bela A. Balassa, "Success Criteria for Economic Systems," in Comparative Economic Systems: Models and Cases, ed. by Morris Bernstein (Rev. ed.; Homewood, IL: Richard D. Irwin, 1969), p. 2.
2. Ibid.
3. Eidem and Viotti, Economic Systems, p. 95.
4. Adams, Comparative Economic Systems, pp. 16, 23.
5. Gregory and Stuart, Comparative Economic Systems, p. 30.
6. Ibid., p. 31.
7. Ibid
8. Schumpeter, Capitalism, p. 67.
9. Elliott, Comparative Economic Systems, p. 6.

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10. Gwartney and Stroup, Comparative Economic Systems, p. 31.
11. Trevor Buck, Comparative Industrial Systems (New York: St. Martin's Press, 1982), p. 7.
12. Gregory and Stuart, Comparative Economic Systems, p. 31.
13. Buck, Comparative Industrial Systems, p. 7.
14. Waud, Economics, p. G-4.
15. Gregory and Stroup, Comparative Economic Systems, p. 29.
16. Spencer, Macroeconomics, p. D-40.
17. Balassa, "Success Criteria," p. 12.
18. Ibid
19. Elliott, Comparative Economic Systems, p. 5.
20. Dolan, Basic Microeconomics, p. 292.
21. Gwartney and Stroup, Economics, p. 541.
22. Eidem and Viotti, Economic Systems, p. 95.
23. Elliott, Comparative Economic Systems, p. 5.
24. Eidem and Viotti, Economic Systems, p. 98.
25. Adams, Economic Systems, p. 23.
26. Gregory and Stuart, Comparative Economic Systems, p. 10.

SECTION III

CHAPTER 15

CONCLUSION: SYNOPSIS OF CAPITALISMSYNOPSIS OF CAPITALISM

As was expected, the analysis of capitalism wasn't easy. Defining the term "capitalism" -- and even, perhaps, the term "system" -- requires a large amount of preparatory labor. But enough has been learned by now to begin to ask some of the questions that need to be asked. Before this is done, however, a brief review of Section 1 is in order. Following this recapitulation, the questions will be asked in the next chapter.

A goal of capitalism, at least as the system has always been constituted, is accumulation of private wealth for the purpose of protecting and extending that great wealth. This is accomplished by using great wealth as a means of power, both over production and over others.

Capitalism has never been a static system; it has always been dynamic. The system is not now what it once was; it has changed as it has developed. But its goal has always been the same.

Historically, capitalism began with the struggle of the individual to obtain power, based upon the emerging idea that the individual was absolute. This idea was incorporated into the theory of the "Invisible Hand." It was and is claimed that the application of this theory would produce the best society -- i.e., would best enable all to survive, in the best possible condition -- but it hasn't.

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The "standard model" of capitalism is currently offered as support for this claim. It is inadequate. The capitalistic economic system is not efficient in any sense of the word. It is not economically efficient: Pareto Optimality does not obtain, even with the aid of government. Neither is it technically efficient: Almost all firms produce within market structures that enable them to be price-makers because they face downward-sloping demand curves.

Further, the results of the system are in conflict with its ideology. The ideology promises much for all, but the application of the system has created a structure wherein many are impoverished or worse.

Capitalism, as a concept, is almost always confused with perfect competition, even though they are far from being the same things. The practice of capitalism subverts the assumptions of the model of this market structure whenever necessary. But even perfect competition is unacceptable without numerous, lengthy, and detailed qualifications.

The economic system supposedly chosen by society, one based on the model of perfect competition, is not the one that society has received. Goods are produced, by both the private and the public sector, in isolation; mainstream consumer behavior theory is almost completely incorrect;

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uninformed markets are everywhere; few, aside from the producers, have complete or adequate information. Little behavior in this system can meaningfully be called rational. Few, therefore, operate in their rational self-interests; their greedy and base behavior is nonetheless euphemistically called self-interest.

Production in this so-called free market, being almost totally dominated by price-making firms facing downward-sloping demand curves, results in many market imperfections. Besides the non-production of public goods already referred to, there are the plethora of negative externalities and an almost criminal underproduction. Rather than promoting benign competition, as claimed by the model of perfect competition, the system results in the micro sector of the economy receiving benefits for creating costs for which the macro sector becomes responsible. The system creates noxious competition.

Each firm seeks that amount of power that will enable it to exercise control over the price of its product and, hence, over the size of its profit. Perfect competition is not a standard towards which the capitalist voluntarily moves. Quite the contrary; it is something the capitalist abhors. Business people don't want competition; they want market control.

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The market is antisocial; it is coercive. It prohibits cooperation; it pits one against all. The market is not objective; it is subjective. The prices generated by the market do not accurately reflect costs and values; neither is the process as efficient or cost-free as is claimed. The market ignores much that it should not. It generates negative externalities in numbers and types much greater than normally thought. The market claims a lot, but it does not consider nearly all that needs to be considered if its claims are to be realized.

All this is done in the pursuit of profit. Though not objectionable in itself, profit and its pursuit need to be justified. They seldom are. Some profit, i.e., normal profit is necessary. Some types of economic profit are socially beneficial. To be justified, however, profit must be fairly earned, and it should benefit society. It seldom is, and it seldom does.

Nor does labor have the freedom to contract that is claimed for it. Only capital, by virtue of the institution of private property, has that freedom. Further, institutions such as private property are not neutral. They exist for, and are protected by, somebody.

Prices, therefore, take on an added definition. They are what must be paid to release the coercive power created by the institution of private property. The "Invisible

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Hand" isn't so invisible: Most firms operate without regard to ethics or anything else that is not a direct cost to the firm.

Using great supplies of natural resources to answer the call for further economic growth produces even more disaster. Nature is no longer self-healing; its wounds are too severe. Capitalism does not make any distinction between the way prices are determined for renewable as opposed to non-renewable resources.

Though capitalism has obviously greatly increased many aspects of our standard of living, it has greatly reduced others. Some of these costs can never be repaid. There are numerous significant mental and emotional externalities which should never be allowed to exist. Noxious competition replaces rational self-interest; the idea that the interest of the other is my interest is seldom acknowledged.

There is not even a minimum standard of distributional justice. Poverty is epidemic. Just as most wars are financed through deficit spending because few will tolerate present taxation to pay for them, few in this system, in spite of all claims to the contrary, pay to eliminate poverty. People believe, against all the evidence, that the capitalistic economic system will feed everyone if only each will take advantage of the

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opportunities the system allegedly presents.

The advocate of capitalism also has the problem of justifying government. Some say that government is necessary if the problems of providing public goods are to be solved. Others say that government should serve as the impartial arbiter of justice. Still others, recognizing the impossibility of impartiality, propose that government should control the excesses of the markets; they often are opposed by libertarians who propose the pursuit of capitalism unfettered (particularly by questions of morality) as everyone's unconditional right.

Few advocates of capitalism are consistent in their claims as to the purpose of government. No doubt, the actual role of government will be worked out politically over time, but one would hope that each advocate, in that period of working out, would be consistent in her or his own position on the matter.

Much of the industrial advance claimed to have been generated by capitalism was fueled by the state's granting of the right of incorporation and the accompanying privilege of limited liability. Previous to this, many potential investors did not invest because they feared exposure to unlimited liability. Limited liability alleviated this fear.

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With the industrial advance came great industrial and financial concentration. The propaganda distributed by the financiers to society at large claimed that such great concentration was necessary if newly discovered economies of scale were to be realized -- i.e., if consumers were to receive more products at lower prices. This propaganda was false; the large profits that resulted from this concentration that were the reason for it. Previously, the predatory price cutting of a near-Libertarian economy had led to many business failures.

The market's answers to price cutting were the Sugar Trust and other subsequent concentrations. The capitalists themselves even chose government interference and anti-trust regulation as preferable to unfettered Libertarian competition, particularly since they knew that they could largely control the regulation through the financing of selected politicians. A laissez faire government doesn't exist because it can't.

The result of this development was that society incurred large costs while the oligopolistic industries that imposed these costs obtained the large share of the benefits. This is without even considering the alienation engendered by this concentration.

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Accepting these results is hard for people. They want to believe that they are well-informed and rational and that they operate in their self-interests. After all, that is what they should do if they are to live a good, human life. The reality of capitalism is in conflict with its ideology. The system doesn't do what proponents say it is going to do; it is not socially efficient. Perfect competition is impossible. Some questions, then, need to be asked.

Questions About Capitalism

The first questions which must be asked are: What is being analyzed? What is the capitalists' definition of capitalism? It seems no one really wants to define it. This analysis has clearly shown why this is the case: A well explicated and feasible definition of capitalism conflicts, and conflicts severely at almost every turn, with the model of perfect competition which the system's advocates tout as the far superior market structure.

The system's adherents purposely leave the definition confused. It is only through a careful collecting of selected bits and pieces of the capitalist concept that the big picture that they wish shown can be painted. If the definition is too clearly stated, too much of this conflict becomes too obvious, possibly even to the defenders of capitalism themselves.

This conflict between the model and reality cannot be allowed to become apparent because it is to this model that the capitalist ideology primarily appeals for its justification. The model is supposed to justify what is; it is said to be a positive model. But it isn't, for it is not a model of anything that exists, or even can exist. It doesn't even come close to describing "what is." Further, the model can't justify actual economic activity if it is seen as it really is -- as the emperor's new clothes -- as

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clearly unrealistic to everyone.

Leaving the definition and the model both fairly vague allows each part of the system or model to be shifted around to explain whatever it is necessary to explain in order to justify whatever needs to be justified, even if that explanation might contradict another part of the system. In this way, it is more likely that the contradictions will not be seen, at least by anyone who is not specifically examining the assumptions and methodology of the model.

In any case, if the definition being considered is a clear one, it must then be ascertained whether the model presented is a structurally accurate one -- i.e., an accurate, self-contained, non-contradictory whole. The model of perfect competition is none of these. Its assumptions contradict each other and its conclusions. Neither is it realistic: It doesn't represent reality.

The whole model is little more than a pedagogical device, and not a very good one at that. It is confusing and misleading. These are not traits one normally attributes to an adequate pedagogical device; quite the contrary, they are attributes one would specifically avoid. If the advocates of capitalism are to continue to refer to it as "competitive," possessed of "consumer sovereignty," "rational," etc., they will have to greatly modify this

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model.

Further, even if the model were structurally sound, it does not reflect capitalism: What the model says that capitalism is and does are not what capitalism actually is and does. A justification for the model that was previously considered is that it can serve as a standard by which we measure the inevitable market imperfections that must occur. Yet, not only isn't that done, except infrequently, but the model is used to justify the market imperfections themselves.

Keynes was correct when he saw capitalism as an inherently unstable economic system.[1] The system is corrupt and beyond repair. A model or system must be rational; it cannot have contradictory assumptions or results that contradict its purpose. Nothing less is acceptable. Next, it is necessary to consider the question, "Does capitalism justify itself when it is measured against its own criteria?" All mainstream economists agree that the system's stated end is to promote the best society that can be obtained via the principle of the "Invisible Hand." The "Invisible Hand," however, is little more than an ideology. It is believed but seldom understood, and almost never adequately defended. The theory of the "Invisible Hand" hasn't worked in the real world; yet the theory is still maintained.

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An example of how the "Invisible Hand" fails to work seems in order here. Many economists have long advocated that "banks [be] required to maintain 100 percent reserves against demand deposits [checking accounts]. Improvements in banking efficiency would be dramatic." [2] This is opposed, however, by most bankers. Their profitability would be reduced drastically "because they would no longer be able to create money. . . . Therefore, despite its benefits, the system is never likely to be adopted." [3]

Further examples of individuals or, in the present era, corporations acting in their own self-interest to the extreme detriment of society as a whole abound: General Motors, [4] General Electric, [5] General Dynamics, [6] General Aniline and Film. [7] Were it not for Reserve Mining, [8] Ford Motor Company, [9] A. H. Robins, [10] etc., one might be tempted to say that our economy suffers from a "General" problem. These are not isolated instances, nor are they anecdotal. A consistent pattern clearly emerges, as these type of behavior have been shown to have become commonplace. [11] So much for the "Invisible Hand." It not only fails to lead to a better society; it often leads to an inferior one.

During the system's early implementation, it might have appeared that the "Invisible Hand" was successful at its assigned task. That's a debatable conclusion, however,

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since conditions were such that almost any accomplishment would have been a material improvement. Capitalism has never produced the best society. Maybe it has produced a better one than most other systems could have produced, although that is also debatable, but it hasn't produced the best one. Its result is surely not the best possible result -- not the best feasible society, let alone the best conceivable one.

If the theory of the "Invisible Hand" was the reason why capitalism was accepted, and if that reason has been shown to be wrong, then either a new and better reason must be provided or a different system must be offered for consideration. Capitalism and this society have done neither. It appears that all there is is an ideology, a rationalization designed to defend the status quo. It misleads even students of the system.

Another reason given for the system's acceptance is that it is said to best ensure simple survival. The evidence against this claim is overwhelming. Besides the empirical evidence, the claim can be easily refuted by the application of a small amount of elementary logic and arithmetic. The numbers in the following example are not quite accurate, and purposely so because they so dramatically make a very accurate point. The United States is only about 6 percent of the Earth's population, yet it

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consumes about one-third of the Earth's production.[12] Granted, the U.S. might itself produce much of what it consumes, but it does not produce all the natural resources that are consumed in the process. It will be assumed that the populations of both Europe and the Soviet bloc each constitute about the same percentages (they are close enough). It will also be assumed that they each consume about the same as do the people of the United States (their material standards of living are also close enough to justify this for-the-sake-of-argument assumption). If the preceding were the case, 18 percent of the world's population would be consuming everything. The remaining 82 percent would have nothing to consume. The truth of the matter is not so different from this invented example. Much of the world lives in poverty, and many of those live in absolute poverty -- i.e., they are starving.

Further, as population increases, technology advances, and expectations rise, the demand upon the non-renewable (limited) resources increases. Simple logic dictates that this growth cannot continue. To deny this is to place false ideology before the obvious. Not only is simple survival for all impossible, but any survival at all is becoming less probable for many.

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Yet there are constant calls for further growth. Every nation has, as part of its economic public policy, a goal of continued economic growth. Seldom is it asked from where that growth will come or at whose expense it will be enjoyed. That growth just is not possible; if some are to have it, it must be at the expense of others, and that is not desirable. Simple numbers contradict its desirability. Yet, the capitalistic economic system continues its Topsy-like growth pattern, oblivious to these costs because its economic calculus doesn't allow for the inclusion of evidence that would show its activities to be the chimeras of rationality that they are.

As much as many advocates of the capitalistic economic system would like the problem to go away, it won't. The problem of the environment is still with us. Nature has its tolerances, beyond which it cannot be pushed. Within these tolerances, nature is self-healing. Waste matter is a natural by-product of living. As long as the quantity of that by-product is not larger than the amount nature can recycle, there will not be any pollution. A reason why capitalism was initially as successful as it was is that nature was relatively healthy at the beginning of the capitalistic era, and capitalism itself was not too extended. Nature was able to withstand the initial onslaught of a great amount of pollution: Even though it was

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unable to recycle all of it, it at least was able to live with it. There were places to store it. Now, we have neither a healthy environment nor a place to store our ever-increasing quantity of waste products.

The negative externalities this system produces are not, as has been claimed, exceptions; they are the rule. Further, they should be expected, as they are the logical result of the thought processes and motives capitalistic economics brings to bear not only on the productive process, but on all of life. The capitalistic system puts a price upon only those things it directly values. Exceptions occur only when the capitalist is forced by something or someone external to the economic system to put a price on something. This then imposes an empirical limiting operating condition[13] upon the capitalist when making economic decisions. Sizable fines and penalties for allowing the existence of significant negative externalities would be such empirical limiting operating conditions.

In any case, if a particular thing does not have a price, or if that price can somehow be ignored, it is only logical that it should be ignored. The system's end is profit maximization; negative externalities are costs that lessens the desired profit. Negative externalities, therefore, logically are ignored.

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Further, it is irrational to determine the costs of renewable and non-renewable resources in the same way. The former are replacable, while the latter are not. Yet the market does not distinguish between them. As our non-renewable natural resources are used up, production, and therefore growth, becomes increasingly more difficult. This is a cost: presently largely ignored, but a cost nonetheless. Further, non-renewable resources are our biological capital, but capitalism treats them as an income item. Everyone knows what will inevitably happen to a business that treats its capital as income: It will soon go out of business. In this instance, "going out of business" means the death of all, or a large number, of us. That's too high a cost to ignore.

The claim is also made that capitalism raises society's standard of living, thus justifying capitalism and the profit motive. But this implies that the increase in material welfare (assuming that such an increase has really been enjoyed) is really a rise in the standard of living.

It is possibly the case that the "Invisible Hand" worked relatively well in its early stages and actually did improve the material standards of living for many at what would have then be considered little unmeasured cost. There are few who would claim that society and its members were better off in the feudal era. Life for the many was

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improved for some time under capitalism.

The claim that the process is continuing, however, is not valid. Even as we come into possession of more and more material things, our material standard of living decreases. For all practical purposes, there are no more free goods, i.e., goods that are both abundant and desired.[15] Previously, air and water were given as examples of free goods. They aren't free goods any longer. They are no longer clean, and no one wants dirty air and water. It is now necessary to pay a cost if society is to have clean air and clean water.

These are but a few of the increasing number of increasingly severe problems that come along with increased production. Even as our possession of material things increases, our material standard of living decreases. This is neither a desirable result nor a logical goal.

But even if all the physical negatives -- garbage pollution, noise pollution, people profusion (pollution), etc. -- are ignored, an increase in material welfare still doesn't automatically bring about an increase in the standard of living. There is more to be considered. The Gross National Product, the measurement usually presented to show how much "better off" we are, usually does not. Besides "disproducts," i.e., the negative externalities, that it doesn't consider, and besides its other market

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imperfections, it still omits much: leisure and other human costs, particularly the physical and mental strain (read "alienation") that are associated with many jobs.

These mental and emotional negatives cannot just be ignored, as they presently are. Eventually, they will catch up with us. The primary one of these negatives is alienation. Capitalism exacerbates workers' alienation. This is a cost. Yet, that alienation is not included in the system's economic calculus.

It is usually argued that it is included because the worker considers the cost of alienation in his cost-benefit analysis and is reimbursed for this cost in the form of higher wages, but this is just not the case. Labor is not really even free to contract; under most circumstances, to survive at all, labor must accept the accompanying alienation with little or no compensation.

Further, alienation is a necessary result of capitalism. Capitalism, by definition, needs both propertied and propertiless classes. The system cannot exist without labor, and labor would not exist if everyone were propertied. In any case, if the goal of the propertied class is maximized profits and all of the costs to the unpropertied are ignored, alienation of the unpropertied is inevitable. Alienation from the labor process and from the product of one's labor is not the only form of alienation.

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Each is also alienated from the other; for a social creature, which the human surely is, this is an unconscionable, high price. The human cannot find complete fulfillment in any but a social setting. Capitalism and the market, however, create a setting where there is a war of each against all. It prohibits cooperation as irrational. It ignores the interest of the other, even when the interest of the other is mine. Capitalism promotes noxious competition as opposed to benign competition. Yet in spite of the destruction that it has wrought, competition is still advocated as a major reason why the capitalistic economic system should be embraced. Surely, these overwhelmingly negative results cannot be given as reasons to accept the system that creates them.

Lastly, it is claimed that capitalism should be accepted because it is efficient. It is not. It is economically inefficient as Pareto Optimality cannot be achieved. Without government, the capitalistic economic system leaves society without public goods -- the reason most often given as justification, even by the minimalists, for having a government in the first place. Further, many public goods are produced in a high degree of isolation. This condition hardly produces a high degree of economic efficiency.

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Capitalism is not technically efficient either, since almost all its firms produce inside the production possibility frontier curve. Capitalism is not socially efficient either; it doesn't do what it says it will do. The capitalistic economic system fails on all of these counts.

Neither does capitalism fulfill "the minimum standard of distributional justice." [14] As has been shown, much of this problem has been caused by an underutilization of resources caused by the market structures of virtually every industry in the capitalistic world. Each firm is a price-maker. To a great degree, the large number of price-makers has come about because of corporations, those artificial creations of the state, which have become so large that they have developed great market power. Corporations have become virtually uncontrollable, even by the state.

It must be asked: Does the present corporate form fit either the model of perfect competition or society's needs? It is clear that it does not. The corporation is a creation of the state. (Some laissez faire!) The corporation, at least in its present form, is antithetical to the needs of society as it seeks to further the self-interests of its major component parts, the stockholders and management.

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Is the market what it is claimed to be? It is not. Not by a long-shot. If the market, as an institution, is to be retained at all, it must be modified to correct its shortcomings, if it can be modified.

The last question that needs to be asked is "Is profit justified? It has been shown that the answer can be "yes." Capitalism has provided much that has been beneficial to society and can continue to be beneficial if the system can be modified to fulfill agreed-upon goals in a socially acceptable manner. However, many do not believe that capitalism can be so modified. Too many vested interests in modern capitalism have been grandfathered in, becoming impenetrable fortresses of power. At best, some parts of capitalism that might be desirable could be retained in a new and different system.

NOTES: CHAPTER 16

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12. Starr, Economics, p. 418; and Schumacher, Small Is Beautiful, pp. 25-7.

13. John Ladd, "Morality and the Idea of Rationality in Formal Organizations," in Ethical Issues, p. 106.

14. Miller, Economics, p. 5.

15. "Catholic Social Teaching," p. 340.

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The Correct Questions to Ask

Most of the questions this work was seeking to identify are now known. Asking them is relatively easy; answering them might prove to be another matter.

The questions that must be asked in analyzing an economic system are discussed below.

1. What is any given society really trying to accomplish? Each society has certain ends it wishes, or at least says it wishes, to achieve. If those claims are sincere -- i.e., not made just for propaganda purposes -- then a society that acts contrary to its claims must be judged harshly. Even if the claims are made in good faith, they still must meet certain criteria if they are to be taken seriously. At the very least, the claims must be plausible: The ends chosen must be at least empirically possible.

Before one tries to do something, one first ought to ascertain if it is possible to do it. An economic systems analyst must determine whether the goals of an economic system are possible. If they are not, and if it is not possible to make adjustments in the system such that its goals would be possible, the matter can mostly be dropped.

2. Is what a society is trying to accomplish what it should be trying to accomplish? This could be a difficult question, because it is open to completely subjective

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answers. Nonetheless, this is an important question to answer or otherwise address. Dealing with this problem at this point will eliminate many of the difficulties ordinarily faced later. Fully answering this question is beyond the scope of this work, so it can be dealt with only briefly here. It is hoped, however, that the answer given will be found to be at least *prima facie* plausible.

A society should seek to promote, as much as possible, the individual and the individual's place in that society. It should create and further opportunities for individuals to become better people and to lead more-human lives. A more human life involves doing and intensifying what is proper for a person[1] -- advancing towards self-sufficiency and happiness.[2] Society should help the individual take advantage of such opportunities. After all, society exists for the purposes of people -- not the other way around.

It is realized that much is left to question here. What is "better"? What is "more human"? What is "proper"? What is the "purpose" of the individual? What is the "purpose" of people? Are those "purposes" different? Unfortunately, there is not room to deal with these questions here. They must be dealt with rationally, however, "for grasp of a reasoned conclusion is the primary condition of knowledge,"[3] and it is knowledge, after all,

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that we seek.

All things considered, the above is, for present purposes, a reasonable answer to the question of what society should be doing. It should do what is rational. If it is not, then it is not doing what it should be doing.

Most organisms function in their best interests automatically; the human is an exception. The human is a conscious, reasoning being for whom "the basic means of survival is reason." [4] Epistemology is beyond the scope of this work; obviously, therefore, so is ontology. All that can be done here is to make the point clear: "If one turns against thought, the struggle can only succeed by thought. The destruction of thought always remains itself still thought. . . . The fate of thought is the destiny of our humanity." [5] Whatever society's goals might be, they must be rational and must promote the human condition.

3. Are the society's underlying assumptions rational -- i.e., neither contradictory nor antagonistic to themselves or one another, in theory or in practice? Are they consistent with furthering the human condition? The arguments that result from these underlying assumptions must be both internally logically consistent (i.e., correct), [6] and externally logically consistent. If they are not, the society will surely be troubled.

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Everyone insists that an argument be correct and sound,[7] but it also is necessary to insist that every argument and premises be consistent with every other argument and every other premise used to make up the theoretical whole. Each argument must be externally logically consistent with every other one. Few critics insist upon this condition.

4. Is society's ideology consistent with its actual construction? Every society has an ideology that serves as the justification for that society, but it is also necessary that that ideology be consistent with the society's actual construction.

Ideology usually develops in order to serve one or another group's self-interest, usually at the expense of some other groups' interests. Beliefs in a patriarchal family, the natural inferiority of slaves, the divine right of kings, etc. are all typical examples of ideologies which were inconsistent with the bests interests of most members of the society promoting such ideologies. Further, these ideologies were not consistent with the construction of the societies which believed them.

Ideology almost always supports the interests of the strongest class or classes in any given society, against the interests of the weakest one(s). Again, there isn't room in this work to consider the concept of class struggle, but the

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manner in which ideology develops and is maintained lends substantial support to the concept.

In any case, the important point concerning ideology, for the purpose of this work, is that the "expert" analyst must recognize that societies have ideologies, and must not be taken in by them. Few would ever expect ordinary citizens to understand what is behind their society's ideology, but I expect anyone who considers himself or herself to be a social or political analyst to understand the ideologies of all the societies they study, their own included. After all, if these experts are to analyze and judge systems and events, they surely should understand them.

5. What kind of a political system should a society adopt in order to accomplish its goals? Again, this question is mostly beyond the scope of this work, but it is necessary to consider it, if only briefly. This question, like question 2 above, is open to much that is subjective, but there is still much that can be discovered if the question is approached logically.

Obviously, the political system, like the social system, must be empirically possible. A society's political system should rationally implement the goals of that society in a best way, consistent with both that society's goals and its assumptions. Further, it will be assumed without

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argument that the political system must allow for as much input as possible from as many people as possible. In other words, it will be as close to a direct democracy as possible. People need to choose for themselves.

Fascism is the antithesis of such a system. Subordinating the individual to the whole to the degree that fascism does is totally incompatible with our position. If it is correct that individuals form societies so that each individual might improve her or his condition, then fascism is not a rational social system. While certain aspects of an individual's condition might be enhanced by a fascist system, other aspects are sacrificed -- aspects that are too high a cost to pay for the achievements of others. Though such a course of action might be rational sometimes, e.g., in times of extreme exigency, it is not always so. In fact, it is seldom so.

In any case, until recently, even to approximate a condition of direct democracy might have been thought physically impossible because of the large numbers of people that would have to be accommodated. With modern technology, it is becoming more and more feasible every day, if it isn't feasible already.

Accusations that this position is but bourgeois democracy are rejected out-of-hand. It is not. By a "bourgeois democracy," I mean a democracy designed to

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protect the interests of the propertied class, a system that has the appearances of democracy rather than the actualities.

In any case, it is granted that those who benefit from the existing property relations will resist change as long as they can, but a meaningful democracy is necessary if there is to be a free society. It is the best of bourgeois democracy that is retained, not the appearances. Neither does it imply the rule of the majority over the minority. Opposition by anarchists is also rejected: Their position is implausible, if not impossible. Arguing this point is also beyond the scope of this work: The question is mentioned only because it is a necessary consideration and must somehow at least be acknowledged.

Some people maintain that the present economic system is inadequate for many of the reasons presented in this work -- i.e., the system is a failure for the many, most of whom bear unconscionably high burdens. Further, they also maintain that it cannot be meaningfully changed politically, again for many of the reasons presented in this work -- i.e., that the political apparatus is not actually a democracy but only a semblance of one because those who disproportionately receive a much greater share of the system's benefits control the political apparatus for their continued benefit.

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Most of those who maintain this position also maintain that humanity must be jolted into the utopian future at any cost. The method usually advocated to accomplish this jolting is a dictatorial one. I emphatically disagree with this position: It is as fundamentally incompatible with being human as is a democracy that does not work. If self-determination is a legitimate human goal, then to be ruled by others -- no matter how well intentioned -- is to be less than alive.

Further, it is not reasonable to expect anyone to pay the high price necessary to bring about this utopia (if it really could be brought about) -- particularly since the people who would have to pay the price probably would never receive any benefits from it (assuming that any benefits ever were to result). It would be others, mostly a future generation, who would enjoy any benefits were they to occur. "The man is free, we say, who exists for his own sake and not for another's." [8] Freedom is valued in and of itself; in fact, it is one of the highest values. A "jolt into the future" such as just described negates one's freedom to choose. It is thus rejected out-of-hand.

The only people living who might benefit from such a program are those who direct it. The Russian experience is a good example of how the "leaders" of change do what they do and how they develop into a class that benefits from

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it.[9] This type of society is just not an acceptable alternative. The end of society is, after all, to achieve some good.[10] That good is the self-sufficiency and happiness of the individual.

6. What kind of an economic system should a society adopt in order to accomplish its goals? Fundamentally, the answer here is the same as it was to the above questions. The economic system must be possible, and it should be designed to rationally address those social and other goals that can be accomplished or whose accomplishment can be aided by an economic system.

In any case, the analysis of economic systems cannot be done in a vacuum. All economic activity takes place against a social and political backdrop. That is why it is necessary to consider the above questions, even though they could not all be adequately addressed here. It is important to make it clear that these are important issues. This having been done, it is less likely that they will be ignored when devising or implementing an economic system.

As far as economics itself is concerned, the most important thing about an economic system is that it be consistent with basic economic theory. Economics is, after all, economics. An economic system cannot be in contradiction to adequate economic theory and be acceptable. Such incompatibility is grounds for immediate rejection,

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again assuming it is not possible to make the adjustments necessary to achieve compatibility.

At this point, this work can begin to deal more concretely with the economic questions. Further, those questions now can be considered against a social and political backdrop, even if that backdrop is not as clearly developed as might be hoped. It is necessary to carefully analyze how well capitalism accomplishes what it seeks to achieve in light of the general social and political understandings just developed.

The stated goals of capitalism are at least acceptable; in some respects, they are even laudable. Capitalism seeks an adequate condition of material welfare for everyone such that each will be able to develop his or her human potential to the highest degree possible. Granted, the capitalistic system may emphasize material welfare to the seeming detriment of other kinds of human development, but the claim for the is that it is an effort to improve the human condition. This goal seems to be in agreement with rational human ends.

Thus far, however, the actual results of capitalism differ substantially from its stated goals. The capitalistic economic system's actual goal (for the capitalistic class to accumulate wealth and power) contradicts its stated goal. The result of capitalism is in

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severe conflict with its stated ideology.

The political system usually associated with capitalism is also inadequate. It has held true to the tenet that the highest purpose of the state is to protect the interests of the ruling class. It cannot legitimately be claimed that the political system is democratic in the sense discussed here. The political system functions to subvert the stated goals of society.

Neither is capitalism rational as an economic system. While it recognizes scarcity and opportunity costs, it acts to subvert any rational understanding of cost.

Obviously, there have been major political reasons why capitalism has failed to do what it is said it is to do. As has been noted many times, this aspect is largely beyond the scope of this work. For this reason, the means by which some of the suggested changes can be brought about cannot be dealt with here. Uncovering them is about all that can be done.

7. Does capitalism "want" efficiency? The kind of efficiency that is being referred to is obviously an important consideration. It has been adequately shown that capitalism is not efficient as it claims to be, in any sense of the word. Yet the system still claims efficiency as an accomplishment.

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The capitalistic economic system is not economically efficient. In order for economic efficiency to obtain, all costs must be considered. Yet the individual capitalistic producer will do almost anything to externalize costs in order to increase the firm's profits. In principle, then, such a system cannot be efficient.

The capitalistic economic system is not technically efficient either. For all practical purposes, all capitalistic firms are price-makers to one degree or another. The market structure of almost all industries allows the individual firm to face a downward sloping demand curve. Hardly any firm produces on its production possibilities frontier curve; production almost always occurs inside of the curve.

Capitalism fares even worse when measured for social efficiency. Capitalists say that the system will be efficient and create conditions that will enable at least simple survival for all. However, the system is not efficient: There are numerous people in capitalistic nations, even in the U.S., who are living substantially sub-par lives, economically and otherwise.

To be considered efficient, an economic system must be economically efficient; to be economically efficient, it must consider all costs. The system must also be technically efficient; it must produce on the production

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possibilities frontier curve. Lastly, to be socially efficient, it must do what it should do and what it says it will do. Capitalism fails miserably in all these areas. The conclusion is obvious. Capitalism is inefficient.

8. Is the growth that capitalism seeks desirable? What is meant by growth is important. Analysis in this work has shown that much of what is said to be desired isn't really all that desirable.

As has been shown, there are three possible sources of what is usually referred to as economic growth. (There are four if it is not assumed that production is already taking place on the production possibilities frontier curve.) There is extensive growth; intensive growth, which is the same thing as dynamic efficiency; and growth which results from an increase in the available resources. Each is different from the others; each may or may not be desirable or necessary under different circumstances.

Extensive growth is seldom desirable. It can only occur when the production possibilities frontier curve is shifted outward to the right by the application of resources that were previously idle. More resources must be added -- particularly labor. The opportunity cost for this increased labor is almost always foregone leisure. This price is usually paid only in an emergency such as a war, a natural disaster, etc. Extensive growth for growth's sake is seldom

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desirable.

Intensive growth is dynamic efficiency. If the growth occurs as the result of a procedural breakthrough (such as the discovery of crop rotation, the application of the casting technique from bronze to iron, etc.), then it can be cost-free, and additional benefits truly result. If, however, intensive growth is a result of a new procedure that also includes a more intense use of labor -- e.g., Taylorism[11] -- there can be costs, and they might even outweigh the benefits.

A more intense use of labor brings with it human costs. Working harder is much the same as worker longer. In this regard, some intensive growth is much the same as extensive growth. Both are desirable only when they are necessary due to emergencies. If, on the other hand, techniques can be found to make a process more dynamically efficient without the accompanying human cost, they undoubtedly are to be sought.

Coming into possession of additional resources can be a truly desirable type of growth. The difficulty however, is that in this finite world, particularly with its expanding population, possession of additional resources all too often comes about as a result of taking them away from someone else.

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Further, seldom are all costs considered, particularly when the additional resources are natural ones. This is particularly important when those natural resources are non-renewable. There is a difference in kind when the costs of renewable resources are compared to non-renewable resources. By definition, non-renewable resources are finite; they cannot be replaced. Renewable resources can be. Yet capitalism measures both as if they were the same.

If the additional resources necessary for growth are not obtained by taking them from others, and all costs are paid (or at least as much as they can be), the growth that results is probably highly desirable. But the economic growth of one economy is not desirable if it is achieved at the expense of another. Economic growth attained in that way is not really economic growth. Economic growth attained without paying all the costs is not true economic growth.

When called upon to do so, the practical instantiations of capitalism have usually been able to achieve extensive growth. Historically, they have been able to expand production when emergencies have arisen. For instance, the U.S. industrial machine rose to the productive task of World War II and the subsequent rebuilding of much of Europe.

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Real-world capitalism has also been adept at achieving intensive growth. Much of it, however, has had costs that were not duly considered. Capitalism may have introduced new production techniques which have improved one aspect of the human condition, but it has also instituted much that has imposed costs that some say far outweigh the benefits. Much of this latter type of growth has been the result of working harder, and it is difficult not to refer to it as extensive growth.

Another major problem is how most capitalistic nations has attained "true" economic growth -- i.e., possession of additional resources. After each country reached a certain maturity, much of its subsequent growth has come through taking resources from others or not paying the full costs to nature. These is hardly the type of behavior that is called for from societies that refer to themselves as "just" societies, as most of these nations do.

NOTES: CHAPTER 17

1. Aristotle, Nicomachean Ethics in Introduction to Aristotle, ed. by Richard McKeon (New York: Modern Library, 1947), 1175a, 35, p. 527.

2. Ibid., 1176, 30, p. 529.

3. Aristotle, Posterior Analytics in The Basic Works of Aristotle, 79a, 20, p. 131.

4. Rand, Virtue of Selfishness, p. 21. (Emphasis in original.)

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5. Karl Jaspers, Reason and Existenz (New York: Noonday Press, 1955), p. 109.
6. Gerald J. Massey, Understanding Symbolic Logic (New York: Harper and Row, 1970), p. 42.
7. Ibid.
8. Aristotle, Metaphysics in The Basic Works of Aristotle, 982b, 25, p. 692.
9. Hendrick Smith, "How the Soviet Elite Lives," in The Atlantic (Dec., 1975), p. 41.
10. Aristotle, Politics in The Basic Works, 1252b, a5, p. 1127.
11. Frederick W. Taylor, The Principles of Scientific Management (New York: Norton, 1967)

Some Possible Answers

The reasons why capitalism as a system has so many failures is simply that its assumptions are largely contradictory or unreasonable.

Clearly, a society cannot promote harmony and the self-sufficiency and happiness of the individual if each individual is set off against all the others. Yet this is exactly what the capitalistic economic system does. Proponents of capitalism say they want to promote harmony, etc. Yet the system sets each against all. The market, as currently constituted, is basically anti-social; maybe it can't be any other way.

But the economy is a social, not an individual, thing. Any social costs which accompany a market economy must be considered when deciding to adopt or retain a market economy. Competition is supposed to bring us our daily bread and brew in an extremely efficient manner. Not only does it fail to do so, it makes conditions worse. What Adam Smith was describing in The Wealth of Nations was benign competition; little or none of that type of competition exists. Most of what passes for competition in the current capitalistic system is noxious competition: It destroys rather than creates.

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For example, much of the capitalistic system is built around non-price competition, i.e., advertising. Most of what passes for advertising are perfect examples of noxious competition.

Precision, by the way, is not necessary here; we all know the difference between advertising that informs and advertising that appeals to the base. In general, most advertising is of the latter type; there is relatively little of the former. Obviously, this type of activity is not at all conducive to producing the "best" society. Yet it still is encouraged by the capitalistic system itself.

Some of these difficulties can be corrected -- at least theoretically. Correcting these difficulties politically is, of course, another matter. The problems are more than just the expected differences between a model and the real world, though most such differences remain. The major problems are with the system's institutions and procedures. Many of them can be changed or eliminated though -- at least in theory. Institutions are not neutral; neither are they eternal; they can and do die.

The corrections that will shortly be suggested are not meant to be "revisionist"; they are meant to be realistic corrections of obvious errors. Many of the institutions present today just are not compatible with the system's stated goals.

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Neither is this exercise "gradualism": Gradual change is not the intention. The intention is to make clear a way to improve a system already in place which is functioning in a way contrary to the way it says it intended to function. This exercise is being done in the hope that something practical will come out of it. Perhaps, it won't be of any use; maybe change must be abrupt and revolutionary; maybe it must be achieved by armed revolution. But perhaps some significant change can be brought about rationally. It is hoped the suggestions offered here can be the beginning of a new public political-economic debate.

Again, do not be mistaken about the intention here; it is not being said that all can be made well by "fixing" institutions and procedures. That is hardly possible. What can be done is to make clear some of the obvious contradictions that exist because of or are exacerbated by institutional and procedural arrangements. As economic analysts, it is a part of our job to begin to move society toward where it says it wants to go. We can do this by developing better theory and by exploring practical possibilities. In this work, the former has already been done; it is now time to do the latter.

What, if anything, can be done to make capitalism more viable?

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It has already been shown that economic profit might be acceptable at certain times and under certain conditions. At least one of the criteria in judging the acceptability of economic profit, however, must be that the process by which economic profit is earned is socially beneficial. If it is not, the economic profit is not justified. The economic system of a society is not the social order; it is but a part of the social order. If economic profits are being earned by a process that is not socially beneficial, particularly if that process is socially harmful (as opposed to just being socially benign), then society should take steps to at least make such profits difficult, if not impossible, to obtain.

What, then, can justify economic profits? Obviously, to be justified, they must be justly earned. As Plato so clearly presented in the Republic, "justly" is one of those terms difficult to accurately define. What terms such as these ultimately might come to mean will be determined as the system works itself out. All that can be given here are some guidelines to follow.

The first requirement which must be met if an economic profit is to be considered just is that the profit must be made with consideration of all the costs incurred in the production of that profit. In other words, the firm making those economic profits must have internalized all of

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the costs involved. This includes all negative externalities that are known or can reasonably be expected to be internalized. (Some negative externalities are so minimal that the cost of internalizing them is prohibitive.)

"Reasonably" is one of those terms like "justly"; what is reasonable will be discovered in the process of working it out. Ways must be found for society to construct itself so that it would be natural for it to find those negative externalities rather than to hide them, as is currently the case.

A second requirement for the acceptability of economic profit is that it must be fairly earned -- i.e., it should come about as the reward of the efforts of those who receive it, and not as a result of the efforts of others. In other words, it should not be the result of exploitation. Again, "exploitation" is one of those terms the definition of which needs to be worked out. Right now, the capitalistic economic system defines it as a payment to a factor of production less than the value of that factor's marginal product.

This definition considers neither the source of the ownership of the factors, particularly capital and land, nor the social acceptability of the remuneration paid to the factors, particularly the wage paid to labor. These are important considerations; fortunately, some people are

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currently asking questions about them.[1] The suggested answers to these questions can be considered in future decisions as to what would or would not be fair and equitable profit.

The major way that economic profit can be earned is through market control, at least in the long run. Because some economic profit might be justified, some degree of market control might also be justified. The granting of market control is, after all, the idea behind the granting of patents and copyrights.[2] These grants by the state are intended to promote inventions, works of art, etc. which in turn are intended to promote the human condition.[3] Some level or other of market control over originality is the originator's reward. It is believed that the originator should have a reasonable opportunity to earn reasonable rewards for that originality, and it is through this state-granted and -protected monopoly that these rewards, in the form of economic profits, can be earned.

However, little other market control should be allowed, unless a case for its existence can clearly be made.

"An important factor in existing inequality, both of income and of power, is the gigantic corporation. [The granting of rights which allows and promotes this inequality is] one of the greatest sins of government against the

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free-enterprise system."[4] The major question here is: Which is more important -- the unlimited financial and industrial growth of a corporation, or the free enterprise system? The two are mutually exclusive possibilities. If it is agreed that the free enterprise system is the more important, then the power of the corporation must be delimited.

All too often, it is the state's gift of limited liability that has allowed corporations to become as large as they have. To be sure, the state receives social benefits from this gift, but limited liability is a gift of the state, nonetheless. It is the state, therefore, that has the right -- indeed the duty -- to delimit the private benefits that accrue to the recipient of that gift, so that more is not given than society can afford to give.

The next question, then, is: How much power should a corporation be allowed to possess? The maximum size which can reasonably be argued for is the minimum efficient scale, i.e., "the level of output at which economies of scale are exhausted."[5]

The privilege of limited liability should be revoked for any corporation that is larger than the minimum efficient scale. There isn't any social justification for a corporation being larger; the only purpose for such a large size is the private benefits that result. The results of

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such a maximum-size limitation would be almost instantaneous: Every corporation larger than the maximum size allowed would shrink to whatever maximum size was allowed almost immediately.

The reasoning behind this prediction is simple. Without limited liability, corporate stock would drop in value drastically, since the threat of suits under which total personal bankruptcy for individual investors could result would be a cost not too many investors would bear voluntarily. Few of today's non-inventing corporate Watts would retain their Boultons for very long.

Large institutional investors currently control a very substantial portion of the available investment dollars. The large institutional investors, in particular, being obligated to operate as "prudent men," would be forbidden, for all practical purposes, to own shares in corporations that did not have limited liability. This change would not reduce investment, but it would make funds available to more and different sources.

The question of a corporation's maximum allowed size must be pursued even further. Even at minimum efficient scale, a reasonable argument still can be made that a given firm is too large. As has been shown, there are large costs that are not incorporated into the firm's economic calculus. A primary one is workers' alienation. By reducing the firm

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to minimum efficient scale, the amount of alienation will be reduced somewhat, possibly even substantially. But the remaining alienation most likely will still be substantial. The question then is: Should a firm's size be reduced below the minimum efficient scale so that the amount of alienation can be reduced even further?

The information needed to at least begin to answer the question is readily available. Some industries have decreasing long-run average cost curves that are relatively flat, as opposed to those industries where they are relatively steep. This means that some industries incur rather small increased costs if they operate below minimum efficient scale.

For example, the minimum efficient scale in the cigarette industry is 6.6 percent of total U.S. consumption.[6] In other words, if each corporation that manufactured cigarettes were exactly the size necessary to maintain minimum efficient scale, there would be approximately 15 cigarette manufacturers. (The four firm concentration ratio, however, is 81 percent. That means that four cigarette manufacturers produce 81 percent of the cigarettes. There is little social justification for this.) The point is that they can be reduced in size even below the minimum efficiency of scale at very little additional cost.

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The increase in cost for a firm operating at one-third minimum efficiency of scale is only 2.2 percent. This means there could be approximately 44 cigarette manufacturers instead of the eight that there are now (the eight firm concentration ratio in the cigarette industry is 100 percent) with a cost of only 2.2 percent above the cost of minimum efficient scale.

The result such size reduction would have upon price and profit should be obvious. For a very small increase in operating costs, a significant amount of additional competition would result. This increased competition would cause prices to consumers to decrease and the economic profits received previously to be reduced greatly, if not to disappear altogether. The market for cigarettes would then be as it should be in a capitalistic economic system, or at least, closer to what it should be -- i.e., it would provide the best possible product at the lowest possible price. Such forced size limitation, then, is easily justified. After all, there aren't any social benefits that possibly could justify the economic profits currently being received by the oligopolistic cigarette manufacturers.

These numbers do not hold in all industries however. For example, the minimum efficient scale for a cement manufacturer is 1.7 percent of total U.S. consumption; the existing four-firm concentration ratio is 29 percent. This

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ratio can easily be reduced to 6.8 percent at little or no cost, and probably with cost reductions, while obtaining increased social benefits. In other words, there could easily be approximately 59 cement manufacturers.

Any further size reductions, however, would not be quite so desirable from this perspective. Were a cement manufacturer to operate at one-third of minimum efficient scale, costs would increase 26 percent. This might be considered too high a cost to pay for the benefits that might result. Somehow or other, criteria would have to be established to address these admittedly difficult problems.

In some cases, the guidelines established ultimately could end up being quite arbitrary; in others, such as in the examples given, they would be well-founded and obvious. The number of firms in the cigarette industry can be greatly expanded at little cost.

In some industries, such as the cigarette industry, there might be still other factors involved. In that industry, the social costs of smoking need to be considered. While not wanting to directly address the volatile question of an individual's right to smoke, it must be noted that subsidizing the tobacco industry in light of what is known about the dangers of smoking is not consistent with rational social ends. That subsidization allows for great profits to be made while producing substantial negative externalities.

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Therefore, allowed size might be reduced even further than one-third of minimum efficient scale in the cigarette industry. Obviously, this additional condition does not exist in all industries.

So, because of the differences in the slopes of the decreasing cost curves of the tobacco and cement industries, and because of other social costs, firms in one of them might be allowed to retain their limited liability as long as they didn't exceed minimum efficient scale, while firms in the other would not be allowed to exceed one-third minimum efficient scale without being forced to surrender their limited liability.

For the purposes of this paper, the actual industries and numbers aren't important. The point that there is a rational maximum size that a corporation should be allowed to reach is made here so that the question of size can be addressed adequately by society.

Doing just what has been recommended above might not be enough to adequately reduce all social costs to an acceptable level: More may need to be done.

"Even if the much-advertised economies of gigantic financial combinations were real, sound policy would wisely sacrifice these economies to preservation of more economic freedom and equality." [7] This is another matter that should be addressed but never is.

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Exceeding human scale is another cost that needs to be considered and never is. Large-scale production produces many effects with which many individuals simply cannot deal -- e.g., emotional pressures and the resulting alcoholism, drug abuse, physical abuse, suicide, divorce, etc. These costs must be dealt with, but never are.

The destruction of the environment's biological capital is still another cost that must be considered, but never is. The cost of a non-renewable resource is substantially different than that of a renewable resource. Yet, the market doesn't consider this difference; it treats them both the same way. As with other costs that the market ignores for one reason or another, this cost also must be considered in production decisions.

In any case, there might be industries that just could not be made competitive, no matter what was done. Too, it might be thought worth paying the social costs necessary to enjoy the benefits of certain large scale production. In such a case, "the state should face the necessity of actually taking over, owning and managing directly . . . all industries in which it is impossible to maintain effectively competitive conditions." [8]

The state already provides public goods and merit goods -- i.e., those goods which society has determined are so meritorious that they should be made available to

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everyone either for free or at minimal cost.[9] A few do not accept the concept that merit goods ever should be provided by a government; even fewer don't accept the concept that public goods should be so provided. If, though, the premise of the state providing public goods and merit goods is accepted, it is not much of a step further to say that government should involve itself actively in those industries where effectively competitive conditions cannot be maintained or where large-scale production (production at minimum efficiency of scale) is deemed to be socially desirable.

Such governmental involvement already is commonly accepted in industries whose market structure is a natural monopoly, "a market situation in which the average costs of production continually decline with increased output." [10] Local public utilities are examples of firms that approximate these conditions. Government regulation of public utilities is seldom fought-over in the current capitalistic economic system.

This suggestion is in clear agreement with the claim that the purpose of government in a capitalistic economic system is to promote competition and the free-enterprise system. As has been shown many times in this work, the true purpose of the state in a capitalistic economic system is to expand and further entrench the power of the capitalistic

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class, regardless of cost to others. The purpose suggested here for the capitalistic state is clearly in conflict with the capitalistic state both as it has historically existed and as it is presently constituted. It might not be possible to change its present construction in any nonviolent way.

In any case, the capitalistic economic system can be defended adequately only if it is competitive. The degree of the slope of the demand curve of the profit-seeking firm must somehow be limited to some socially acceptable degree. Some economic activity is mundane and unobtrusive; in such cases, even if not always socially beneficial, economic activity should be left alone. If the activity is other than mundane and unobtrusive, however, an active governmental role should at least be considered. Granted, government involvement always presents risks and costs of its own, but it may be necessary anyway.

In an individualistic society, such as a capitalistic one must largely be if it is to function anywhere near its theoretical potential, much social harm is caused by many individual acts of self-interest. The individual economic actor in these instances just does not consider any costs that do not affect him or her directly. The result of this microeconomic decision making is macroeconomic problems. As should be expected, in an economy where most economic

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decisions are made by individual economic units operating in their own self-interests, those decisions will be made without regard for the interests of the economy as a whole.

In all too many instances, ethics are absent from the business decision-making process. The results of such amoral decisions often produce great social costs. Unless these costs are made to be direct ones, firms most likely will ignore them. Only a more powerful force, almost always necessarily a government, can impose the empirical limiting operating conditions required to include elements previously excluded from the decision-making process. The capitalistic businessperson produces where marginal costs equals marginal revenue in order to maximize profit. Unless these now external costs are included in the economic calculus, they will most likely be totally ignored, except by a very few. Only a force more powerful than the current corporate decision-maker can require them to be included. In our society, that force is government.

These problems, then, can be dealt with only at the macro level. This necessitates some kind of governmental activity. At times it may therefore be necessary to sometimes limit individual activity for the benefit of the entire society.

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There are those who argue that because property rights are inviolable, even if negative externalities result from their use it is the responsibility of those who want them stopped to bribe the property owners. If the bribe is larger than the benefit obtained by the property owner, he or she will cease producing the negative externality.[11] This position is pure balderdash. Property rights are not inviolable; they are a creation of the state, and the state has a right to limit them.

The position of inviolable property rights confuses unlimited individual license with economic freedom. Economic freedom means that one is free to pursue their economic activities as they see fit, but within socially, politically, and legally established parameters. Individual license is a demand to avoid these parameters.

Economic freedom brings with it complementary responsibilities. The exercise of economic freedom necessitates consideration of those conditions that enable one to exercise economic freedom in the first place. One of those conditions is an economic atmosphere of competition. In the current capitalistic society, it is not reasonable to expect individuals to consider the interests of the macroeconomy above their own; therefore, some kind of governmental activity is necessary.

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Further, because unlimited economic license is destructive of competition, and because capitalism cannot be said to truly exist without competition, unlimited individual license cannot be allowed if a society really desires a capitalistic economic system. Again, some kind of governmental involvement is required.

In any case, what is said here about market control and producers must be made applicable to any other group that might have the same ability to control prices. The same control, in principle, must be exercised as much as possible over trade associations, resource cartels, labor unions, etc. Corporations should not be made hostage to other sectors of the economy. Even though unions arose and developed primarily in response to problems imposed upon labor by profit-seeking capitalistic business firms, the activities of labor designed to counter those problems and impositions must also be limited. There shouldn't be much or any need for counter-activities if the original activities which prompted them are limited.

The limitations should be such that all parties' freedom to contract is as close to equal as possible. Neither capital (regardless of the mode of ownership) nor labor can be allowed to hold the other hostage. Such conditions could not further social benefits; they only can reduce them.

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Exactly how all of this is to be accomplished is not the important thing here; a detailed blueprint is not only not possible, it is not necessary. If the proposals presented here are feasible at all, then the actual plan can be discovered in the working out of the solution. All that is necessary is to show that changes such as those suggested here are necessary and that they are also somehow reasonably possible; this has been done. Knowing the final solution ahead of time is just not possible; what can be done will be better discovered and improved in the process of doing it.

There is little doubt that those whose self-interests are affected by these proposals would rise up against them. The difficult thing to understand is that a large number of people whose self-interest would be served by these changes would not rise up in support of them. The ideology of any given society is a force with which to be reckoned; it often -- actually usually, if not always -- is believed in spite of all evidence to the contrary.

Difficult political questions therefore will surely arise. These problems, again, are beyond the scope of this work.

Capitalism's ideology maintains both that private property is inviolable and that government should not involve itself in the economy. Both claims are wrong: Indeed, the second asserts an impossibility. Society must

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remove conflicts both between the reality of capitalism and its ideology and between the various components of its ideology. This can be done by changing either the manner in which capitalism is practiced or capitalism's ideology.

In this work, the proposals regarding the size of corporations recommend doing both. They recommend more "competition" and a realistic extension of present governmental activity. Further, these suggested changes promote the freedom of the individual at the expense of power, just as is advocated by capitalism's ideology. (Again, few people understand that unlimited individual license is not the same as economic freedom.)

Further, people need more than just material things and the leisure to enjoy them: They need to participate. This need is a part of their nature. The non-fulfillment of this need produces alienation. An economic system must provide for a high degree of participation by everybody if it is to further the human condition.

Worker control of the production process would go far in providing for this participation and in reducing alienation. The workers, after all would hopefully choose production techniques, processes, firm sizes, etc. that would eliminate or substantially reduce alienation. If alienation wasn't eliminated or reduced immediately, it would likely happen over time as the workers learned more

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through the process of deciding. If they didn't eliminate or reduce alienation, a good case could be made that they deserved to be alienated. Much alienation would now be the result of their actions, and who better should suffer negative results than the perpetrators of the actions that caused them?

Yet so great would be the force of the propaganda brought out against these proposals by the power-brokers, that great political expertise would be needed to make them palatable to the general electorate.

In any case, even if having such a strong ideology would prove to be a problem, there is no reason why that ideology should blind the economic analyst. Yet so many are blind. It would be hoped that the analyst, at the very least, should be able to see beyond ideology.

NOTES: CHAPTER 18

1. See, e.g., Cyrus Bina, The Economics of the Oil Crisis (New York: St. Martin's Press, 1985); and Willie Semmler, Competition, Monopoly, and Differentials of Profit Rates (New York: Columbia University Press, 1984).

2. Melville Nimmer, Nimmer on Copyright (Albany, New York: Matthew Bender, 1963). Ch. 1; Benjamin Kaplan, An Unhurried View of Copyright (New York: Cambridge Press, 1967); Barbara A. Ringer, "Two Hundred Years of American Copyright Law," in Copyrights, ed. by Barbara A. Ringer and Paul Gitlin (New York: Practising Law Institute, 1963), pp. 117-131; Alan Latman, Howell's Copyright Law (Rev. ed., Washington: BNA, 1962), Ch. 1; Jack Lahr and Rich Kinter, An Intellectual Property Law Primer: A Survey of the Law of Patents, Trade Secrets, Trademarks, Franchises, Copyrights, and Personality and Entertainment Rights (New York: Macmillan, 1975), Ch. 1.

CHAPTER 18

CONCLUSION: SOME ANSWERS

3. The United States Constitution, Article 1, section 8.
4. A Positive Program, p. 12.
5. Dolan, Basic Microeconomics, p. 154.
6. F. M. Scherer, Alan Beckenstein, Erich Kaufer, and R. D. Murphey, The Economics of Multi-Plant Operation: An International Comparisons Study (Cambridge, MA: Harvard University Press, 1975), p. 80.
7. Simon, A Positive Program, p. 13.
8. Ibid., p. 11. (Emphasis in original.)
9. Dolan, Basic Microeconomics, p. 106.
10. Gwartny and Stroup, Economics, p. 467.
11. Friedman, Capitalism, p. 28.

The Correct Questions About Economics Systems

The problems of the economic systems analyst are many and varied. All these problems, however, can at least be dealt with if they are fully explicated.

The first thing an economic analyst needs to do is to determine the adequacy of the model of the economic system being considered. The exact procedure required to accomplish this need not be explored here. Rationality, consistency, and the like, however, are naturally to be included.

Even though it might have appeared that this work did not consider the analysis of presently existing political economic systems important, it is recognized that this kind of analysis is important. It is in these existing systems, after all, that we live. They must be analyzed, but the analysis should be done in light of what was learned in the analysis of economic theory and the analysis of the system's model.

In any case, there is a list of criteria by which an economic system, either the model or an actual instantiation, can be judged. They are quite similar to the ones already given, but they are modified somewhat. The questions prompted by these criteria will be asked of a political economic system that is assumed to already exist. It will be assumed that any other required analysis has

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already been done.

1. Does this particular political economic system reasonably account for all the costs incurred in economic transactions? Is the economic calculus of this system as complete as it reasonably can be? There is nothing intrinsically wrong with cost-benefit analysis. Often, however, its result is either that all costs aren't considered, or costs which can't be adequately measured are represented as having been adequately measured anyway. The mere fact that these inadequate measurements are in number form often gives them a power that they ordinarily wouldn't possess.

2. The criterion of economic growth is an important one. Producing an equal or greater amount of economic goods with either the same or a lesser amount of resources, particularly labor, is obviously a benefit if there aren't any other accompanying costs or if those who pay such costs decide that they are worth paying because of the benefits of having paid them. Unfortunately, all too often, as has been shown, what is called economic growth does not occur in this way. An analysis adequate to expose any confusion is mandatory.

3. The superior system is, obviously, the most efficient. But here efficient means efficient overall -- i.e., considering all three types of efficiency that have

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been discussed, and also the costs of having each. If a given political economic system is not efficient in these ways, it surely cannot be considered an efficient system.

4. The material standard of living of a given system is also an important consideration. But a humanist standard of living is even more so. This work has pointed out the hazards of numerically measuring that which does not lend itself to such measurement. It won't be recommended now. It is necessary, however, to have some idea of how to measure economic welfare. Naturally, all costs must be considered. It is realized that there are all sorts of subjective considerations here, and what is and is not an adequate standard of economic life is open to much interpretation. But within reason, as economic analysts we should at least know what is minimally reasonable relative to the claims made for a system.

5. How does the individual qua individual fare in a given political economy? Remember, if there is any justification whatsoever for the existence of the state, it is that it enables individuals to better their human condition and to develop into better individuals. Regardless of the economic system, people will have some kind of a rational self-interest; that rational self-interest must be allowed for, not pandered to. It should be developed into a constructive social force, as opposed to a

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destructive one. After all, there are many instances where the interest of the other is truly mine.

6. Does the given political economic system in question meet some adequate minimum standard of distributional justice? If a society has the resources, "everyone has a legitimate claim on economic benefits to at least the minimum level necessary for the social protection of human dignity. . . . all persons really do have rights in the economic sphere." [1] People are essentially social beings, and they grow in a society. However, they cannot grow as people if they do not have the basic physical resources to participate in their society with dignity.

"People have a right to work." [2] They have a right to survive by their own efforts without undue interference from their society. The opportunity to work is so important that a society that makes it difficult, or makes one dependent on others, is a less-than-adequate society.

Much important work yet needs to be done on this topic, but if it is done in the manner suggested, it should prove to be as exciting and rewarding as it is difficult.

NOTES: CHAPTER 19

1. "Bishop's Pastoral," p. 351. (Emphasis in Original.)
2. Ibid., p. 353.

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Chapter 9

CAPITALISM: LAISSEZ FAIRE

Laissez Faire

It appears that the capitalistic economic system, at least as it currently exists, has gained power in government and uses that power in its own self-interests, to maintain its hold on that power. It further appears that if the actions of the capitalistic economic system are to be restrained, only government can do it. Government, then, seems to be necessary if the capitalistic economic system is to function at all, either as it does now or as it might. Therefore, it is necessary to understand fully the relationship of government to the capitalistic economic system.

Milton Friedman says, "The scope of government must be limited. [But amongst] its major functions must be . . . to enforce private contracts, to foster competitive markets." [1] For an advocate of laissez faire, his list of government's major functions is more than just a little strange. He includes government interference in the marketplace as a proper role of government. But he is correct: It is necessary for government to regulate the economy.

Almost everyone agrees that an economic system can not do everything, and does some things wrong; further, most agree that it is government's place to promote whatever is the economic system over which it governs. If people don't

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agree that this is government's place, they at least agree that it is what government does. Further, it is commonly agreed that government should correct those things that the economic system does wrong or can't do at all. This is what now is mostly meant by the term "laissez faire." It is not, however, strictly speaking laissez faire. It is clearly something else.

That does not, however, make it undesirable. Participation in the economy has become a necessary function of government. The amount or degree of that participation is another question. Again, it is one that will be addressed later.

In any case, if the capitalistic economic system is to meet the claims made for it, it must have a government active in the economic realm. Further, the government will be one which operates mostly in the interests of its constituency, as should be expected. Government is, after all, a method of consolidating and exercising power. It appears to be necessary that the laissez-faire assumption previously rejected be replaced by some other principle concerning the relation of government to economy if the capitalistic economic system is to operate in the world as it intends to.

Chapter 9

CAPITALISM: LAISSEZ FAIRE

NOTES: CHAPTER 9

1. Friedman, Capitalism, p. 2.