

## **Why do intellectuals distrust capitalism?**

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Intellectuals are generally defined as individuals whose main occupation is to produce, disseminate and debate ideas. Hayek recognises the key role of intellectuals in framing public policy debates, arguing, “intellectuals are the organs which modern society has developed for spreading knowledge and ideas, and it is their convictions and opinions which operate as the sieve through which all new conceptions must pass before they can reach the masses” (Hayek, 1949). The concentration of intellectuals in academia, the arts, media and government gives them the unique ability to shape the opinions of society, magnifying the power of their viewpoints. However, whilst operating in politically influential positions, intellectuals hold ideological views that fundamentally differ from the general public, even when accounting for demographic factors (D’Souza, 2006). Though the opinions of the intellectual field are spread along a curve, in most Western democracies their views are skewed toward support for the expansion of government intervention into the market, and the rejection of capitalist institutions (Nozick, 1996; D’Souza, 2006). In the early twentieth century, intellectuals were instrumental in initiating the socialist movement; supplying the theoretical arguments and slogans and encouraging the working classes to join the movement. Given the influential position of intellectuals as potential catalysts for societal and institutional change, it is important to analyse the causes of the ideological imbalance held by intellectuals in Australia and other Western democracies.

The distrust many intellectuals hold for capitalism is founded on three common beliefs; that capitalism does not substantially increase living standards and wealth; that capitalism debases the moral foundation of society; and that capitalism generates inequality (McCloskey, 2006). The pervasive assumption is that government intervention will produce superior outcomes in terms of wealth, morality and equality than those produced by spontaneously ordered and decentralised market processes (Hayek, 1988). The widespread perspective amongst many intellectuals is that these beliefs represent the objective truth, and the dominance of this viewpoint in their field merely reflects the benefit of their greater education and scholarship. It is therefore necessary to assess the validity of these beliefs, in order to judge whether their scepticism of market processes and corresponding faith in

government action reflects the balance of the objective evidence, or whether more complicated underlying factors are responsible for the bias.

As Smith recognised by the analogy of the 'invisible hand', profit-driven competition under capitalism produces a system of prices that directs society's resources to the uses that most efficiently satisfy society's desires. These market forces have resulted in unparalleled wealth and security for those in capitalist societies (Smith, 1776; Baumol, 2002). In fact, the rise of capitalism from the mid 19<sup>th</sup> century has transformed the human experience from a historical norm of abject poverty, starvation and desperation (McCloskey, 2006). As McCloskey cites, the average life expectancy of a person at birth anywhere in the world has risen from only 26 in 1820 to 66 in 2000, and the world income per head has increased by a factor of five since 1800, during a period of enormous population growth (McCloskey, 2006). Many intellectual commentators believe that the emergence of developments in science and technology that have drastically improved the convenience and quality of our lives, and the emergence of capitalism are unrelated. However, capitalism creates the incentives and competitive pressures which drive innovation and technological discovery, and which are actively suppressed in centrally planned economies (Baumol, 2002).

Intellectuals often criticise capitalism as debasing the values of society by entrenching the values of selfishness, greed and materialism. For example, Prime Minister Kevin Rudd recently argued that free-market 'fundamentalism' is "little more than personal greed dressed up as an economic philosophy" (Rudd, 2009). The actions of market participants are driven by self-interest, as portrayed in Adam Smith's classic statement, "it is not from the benevolence of the butcher, or the baker, that we expect our dinner, but from regard to their own self interest" (Smith, 1776). However, capitalism does not create the desire of human beings to improve their own lives and prosper, it merely channels their efforts through the market to promote wealth throughout society. Conversely, the social engineering attempted through socialism did

not succeed in eliminating self-interest; it merely unlinked the incentive system under which this motivation can be used to drive economic growth, innovation and higher living standards.

However, as Adam Smith noted, capitalism is morally legitimate as it represents “the obvious and simple system of natural liberty” (Smith, 1776). The foundational principles of capitalism are free and voluntary exchange and private property rights, which are necessarily undermined by the use of state coercion the freedom to contract and weakening property rights. Reciprocally, economic freedom through capitalism promotes political freedom by reducing the area in which state coercion may be applied, and by dispersing power throughout society to offset concentrations in political power (Friedman, 1980). At the extreme, socialism necessitates a totalitarian state for the government to obtain and maintain control over the means of production, as the Soviet experience confirms (Boettke, 1990). Capitalism offers the greatest scope for the fulfilment of the each individual's ability and talents, as it provides the freedom for each individual to choose their own pathway to happiness.

In response to the dramatic increase in prosperity garnered by capitalism, intellectuals have sought to shift focus from the absolute levels of wealth to relative levels of wealth, with greater equality of income distribution the new ultimate goal. Many intellectuals tend to view capitalism as a zero-sum game, in which the successful entrepreneur succeeds only by exploiting the poor (van den Haag, 2001). However, the key to Adam Smith's insight was that strictly voluntary transactions must provide mutual benefit to both parties, and therefore there is no zero-sum game in which the commercial success of one party must come at the expense of others (Smith, 1776).

While many advanced capitalist societies have experienced differing levels of rising inequality since the 1980s, this is not necessarily a negative outcome in the context of a long-term trend of increasing prosperity for all parts of society

(Rueda & Pontusson, 2000). Equality of results in a world of inequality of talent and diligence simply achieves injustice through redistributing income, and undermines wealth by depriving individuals of the incentive to invest in their human capital and apply their talents to production (van den Haag, 2001). By contrast, capitalism has long been a force for genuine equality of opportunity, enabling mobility between economic classes (van den Haag, 2001). In the face of the abject failure of government aid to reduce poverty in developing countries, it is the spread of capitalism which has enabled more of the world's poor to afford the basic necessities of life than ever before (McCloskey, 2006). This is particularly clear in the recent reduction of poverty in China, India and South East Asia after increasing economic freedom and introducing capitalist institutions.

Given the strong theoretical arguments for capitalism and the supportive historical evidence, it is perhaps surprising that the greater education and abilities of intellectuals does not provoke a disproportionate level of support for capitalism. Additionally, as Schumpeter notes, the intellectual is a major beneficiary of capitalism, which provides the wealth that fosters investment in higher education, produces a prosperous and educated class of potential patrons and stimulates growth in creative industry (Schumpeter, 1942). It is necessary to investigate the reasons for intellectuals being "constitutionally disposed" to favour greater levels of government intervention into the market, and to reject the clear success of capitalist institutions (Hayek, 1949). The range of explanations presented by Hayek, Schumpeter, Friedman and others can each only explain a part of this phenomenon, yet the arguments appear to be highly compatible and may interact to reinforce the bias.

The most prominent explanation for the tendency of intellectuals to support the expansion of the sphere of government is the motivation of self-interest. Intellectuals are widely sponsored by government in media, the arts, universities, and clearly in the bureaucracy. The dependence of many intellectuals on government creates a conflict of interest when commenting on

public policy, as to criticise the size of government would be to criticise the vast public apparatus that supports the intellectual. Promoting the expansion of government also promotes the self-interest of the intellectual, as arguing for increased regulation and intervention into the market creates further opportunities for intellectuals to join the ranks of the technocracy (Hayek, 1949). Nozick and van den Haag argue that the intellectual feels insufficiently rewarded by the market, as in the market the reward of the intellectual depends on the relative scarcity of their talents and the extent to which they can satisfy the market-expressed demands of others, rather than depending purely on moral or intellectual merit (Nozick, 1998; van den Haag, 2001). The opportunities available to the intellectual are greatly increased by public subsidisation, ironically insulating the intellectual from the pressure to produce publicly useful work in order to achieve rewards.

The involvement of the intellectual field with the State, as the employer or sponsor of intellectual activities, may drive the romanticisation of government action. A strong belief in the power of government to transform society for the public good will influence public policy in directions which enhance the financial rewards, prestige and power available to the intellectual class. Milton Friedman suggests that intellectuals in the United States compare the actual results of a market-based economy with an idealistic conception of democratic government (Friedman, 1962). Intellectual critics of capitalism often condemn the outcomes and morality of the market, yet blithely assume that government intervention will both be motivated by desirable public purposes, and will be able to successfully achieve the intended outcomes.

This tendency to romanticise government action overlooks the perverse incentives which politicians face, and which reduce the ability of government to enact policy with purely altruistic motives. Median voter theory suggests that majoritarian elections induce politicians to adopt policy positions that match the preference of the median voter (Rice, 1985). In Australia, the median voter is likely to be white and middle-class, creating a tendency to

generate policies which favour the privileged rather than the poor (for example, middle-class welfare payments).

Additionally, many government actions produce a concentrated effect on a commercial or sectional interest, and a countervailing diluted effect on the general public. The superior resources, energies and focus of the sectional interest is often not counterbalanced by the public perspective, and the sectional interest can 'capture' the regulator to promote their own ends (Dal Bó, 2006). Often a coalition of 'bootleggers and Baptists' forms which produces an alliance between those with a seemingly genuine public interest motive and a well-resourced commercial or sectional interest group which uses the credibility of the 'Baptists' to advance their cause. An example of a recent 'Bootleggers and Baptists' alliance may be the First Home Buyer's Grant, which masks the commercial interest of the real estate and construction industries by appealing to genuine concern for first home buyers (Banking Business Review, 2009).

Finally, government interventions to remedy perceived market failures are also often fraught with unintended consequences that produce worse outcomes for market participants. The government frequently fails to anticipate the ways in which intervention will distort the market and create perverse incentive structures that offset the intended effects of the policy. Using the First home Buyer's Grant as an example, the direct payment to first home buyers generally within the lower price market segment simply fuelled the inflationary pressures which were undermining housing affordability, and amounted to a direct transfer to construction and real estate industries (Banking Business Review, 2009).

Despite the clear limitations of government intervention as a mechanism for achieving superior public outcomes, Hayek finds that intellectuals are often seduced by the temptation to use government as a tool to reshape society.

Since Plato's conception of a utopia governed by a 'Philosopher King', intellectuals have often aspired to use their perceived wisdom to redesign society, mostly in honest pursuit of the greater good (van den Haag, 2001). Hayek argues that intellectuals feel their abilities and influence support a role of benevolent paternalism, in which the intellectual class can create better outcomes than market processes through carefully engineered government action (Hayek, 1949). Hayek recognises the 'instinctual appeal' held by the promises of greater wealth and equality through greater control over the economy. However, the overwhelming message from the collapse of socialism in the twentieth century is that "order generated without design can far outstrip plans men consciously contrived" (Hayek, 1988).

Hayek describes this hubris of socialist intellectuals as the 'fatal conceit', a belief that a central planning authority run by intellectual technocrats could capture the level of dispersed information required, and maintain motivation within the bureaucracy to act on this information, to create outcomes that match the performance of the spontaneously ordered market (Hayek, 1988). While many modern intellectuals are chastened by the evidence of the Soviet Union and are more likely to advocate the incremental expansion of the size and power of government rather than the adoption of socialism, the 'fatal conceit' that a technocratic government can 'perfect' the operation of the market remains a key factor.

Lastly, there are two arguments which are ineffective at explaining the origins of anti-capitalist bias amongst intellectuals, but which may reinforce the other arguments by explaining the perpetuation of the bias. Hayek argues the bias is partly caused by self-selection, in which intelligent young students without an anti-capitalist ideology are more likely to pursue the greater financial rewards of business and other professions rather than in intellectual fields (Hayek, 1949). By contrast, intellectually gifted students driven by a leftist ideology will abhor the ideological compromise of working in the private sector (D'Souza, 2006). The association of the key intellectual institutions;



government, the media and academia with the socially democratic agenda perpetuates the forces of self-selection. Nozick argues that the organisational structure of universities and public institutions with a formal structure and control vested in a central authority further reflects, and contributes to, this trend (Nozick, 1998).

Klein and Stern apply groupthink theory to suggest that the widespread acceptance of socially democratic values in academia creates a tendency for uniformity (Klein & Stern, 2009). Intellectuals expressing capitalist values may feel excluded and seek to avoid conflict by adapting their views to express conformity, and those with unformed beliefs may tend to disregard views that oppose the mainstream group opinion. The nature of academia reinforces the tendency to conformity, with educational bodies hiring, advancing and giving financial support to those academics that espouse the ideology conventional to the group. There may also be a tendency to disregard evidence that is inconsistent with the pervasive intellectual beliefs about capitalism, particularly as the beliefs are the foundation of a broader range of 'socially democratic' values often held by intellectuals (Hayek, 1949).

While the dependence of the intellectual class on the support of government persists, it is likely that intellectuals will remain sceptical of the societal benefits that flow from capitalism. However, it is essential to ensure ideological diversity within Australia to guard against the unchallenged acceptance of the fundamental assumptions of the prevailing intellectual ideological stance; that capitalism produces inferior levels of wealth, morality and equality to economies dominated by government intervention. As Hayek argued in 1949, modern proponents of capitalism must offer a competing vision of a free market economy that captures the imagination of the intellectual and the broader public, as well as argue for the decoupling of the production and dissemination of ideas from the apparatus of government (Hayek, 1949).

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