The End of Capitalism

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By Michael Miller

Who would have imagined 20 years ago – when the Berlin Wall fell and we celebrated the death of socialism – that capitalism would begin 2009 under heavy fire. The Cardinal of Westminster, Cormack Murphy O'Connor, reportedly went so far as to say that, as 1989 marked the end communism, 2008 was the year when "capitalism had died."

What are we to make of capitalism in light of all the crises, fraud, and government intervention, when even some traditional supporters of markets are supporting bailouts and seem to have lost faith in the market order? Is capitalism no longer credible? Is capitalism really to blame for the financial woes we now face?

Before we try to answer this question, it is important to point out that the word "capitalism" is actually a Marxist term, and while we use it interchangeably with "market economy," the Marxist view of capitalism surprisingly still shapes the way we tend to understand economics. The term capitalism gives the impression that the market is something out there: a nebulous force which can create great wealth but can also turn and harm us. This impersonal understanding can lead us to blame markets when things go wrong instead of looking for reasons that are harder to diagnose and often reveal deeper cultural and spiritual issues.

Pope John Paul II specifically rejected the term capitalism and its mechanistic, amoral, and impersonal image, preferring instead "market economy," "business economy," or "free economy." He did so not to be pedantic, but to illustrate the important truth that markets are fundamentally networks of human relationships. Understanding markets this way sheds light not only on many economic problems, but also on the underlying moral nature of markets. If markets are intrinsically connected to human action then they necessarily have a moral dimension. Capitalism as seen by Marxists, or even within neo-classical mathematical models, separates markets from morality – and thus from reality. This, as we have seen, can have disastrous consequences.

Markets are the combined activities of millions of individuals and families. They are not composed merely of some guys on Wall Street they are made up by us. Like anything else run by humans, markets are not perfect and can fail. If we become overly speculative and convinced that prices can go nowhere but up so that we violate all norms of prudence and keep buying at outlandish prices – as happened in the Tulip Bubble in 1637 the dotcom bubble in 2000 and the housing bubble last year – sooner or later reality will set in.

Despite their failures however, free markets have lifted more people out of poverty and helped create prosperity and peace better than any system ever devised. So much so that even in today's financial downturn, as hard as it may be, very few people who live in mature market economies are completely without resources or on the brink of starvation. Notice that markets are often blamed for the downturns, yet we tend to forget the cause of the upturn.

In these days of financial turmoil, we often hear critics speaking about de-regulation or "unbridled capitalism." Both of these are straw men. Unbridled capitalism is a myth. Try to think of one country where there are no regulations on the economy or business For free markets to succeed and be sustainable, they require a framework built of rule of law, contracts, and secure property rights.

The real question is what kind of regulation and what level of intervention we should choose. It is important to remember that many of the contributing causes of this crisis were precisely an overly invasive government. Federal regulators required banks to provide mortgages to customers who could not pay back the loans; the Federal Reserve manipulated the money supply, exacerbating the housing boom; and politicians of all stripes promised bailouts that incentivized irresponsible behavior. These are prime examples of what Friedrich Hayek labeled 'the fatal conceit': the notion that bureaucrats and politicians have enough knowledge to plan an economy better than individuals and businesses.

At least on equal par with a juridical framework as a factor In sustaining market systems is a specific moral culture. This includes trust, diligence, collaboration, honesty, perseverance, and prudence. If this crisis has taught us anything, it is the importance of morality for a market economy. The list of the seven deadly sins comprises an outline of the crisis's causes. How many of us out of greed, gluttony, or pride used credit cards to buy things we did not need or could not afford, just so we could have the latest gadget or keep up with the Joneses? What about Wall Street bankers who couldn't resist the chance to make ever more and took imprudent risks with clients' money, or out of pride bought financial instruments they hardly understood. Markets cannot succeed without a strong moral fabric among the citizenry.

Yet instead of learning the lessons of the past, we again hear calls for increased regulation and government involvement. Some regulation is necessary, but we must not look to regulation to solve our moral problems. Here is where the realization that markets are networks of human relationships is important.

If we regulate too much, we concentrate the power of markets in fewer and fewer hands. This has led to all sorts of evil and corruption. Socialist economies, cartels, oligarchies, and union-controlled industries where the price mechanism cannot function produce stagnation and create incentives for corruption. It is a false hope to believe that regulation will make everything right. This is a utopian dream that ignores human failing and is the name promise that has been peddled by the socialists.

It is likewise delusional to believe that markets alone are enough. Markets require more than just efficiency; they require virtue. Our Founders taught us that without virtue political liberty could not long be sustained. The same holds true for economic liberty. And yet without economic liberty there can be no political liberty. Like liberty, the market must be moral, or it cannot exist at all.