

16A THE FAILURE OF CAPITALISM

Introduction

Capitalism is defined as an economic system based on private ownership where the (free) market determines the production of goods and services.

Capitalism developed in the 1700's in Western Europe after the medieval system (feudalism) collapsed. Scottish economic philosopher Adam Smith (1723-1790) is considered the "father of capitalism," the first to explain its operations in detail in *The Wealth of Nations*. Classical capitalism was built upon these ideas:

- Property is privately owned (not owned by the state or the community).
- Real money is continually exchanged.
- Companies produce products and hire workers.
- Division of labor produces efficiency.
- Supply and demand set prices.
- Competition is seen as a positive thing, because it moves toward lower prices and increased quality.
- Increased trade leads to increased productivity.
- "Enlightened self-interest" drives the economic system.

Jerry Muller writes:

Capitalism is a system of economic and social relations marked by private property, the exchange of goods and services by free individuals, and the use of market mechanisms to control the production and distribution of those goods and services. Some of its elements have existed in human societies for ages, but it was only in the seventeenth and eighteenth centuries, in parts of Europe and its offshoots in North America, that they all came together in force. Throughout history, most households had consumed most of the things that they produced and produced most of what they consumed. Only at this point did a majority of the population in some countries begin to buy most of the things they consumed and do so with the proceeds gained from selling most of what they produced. [1]

Further,

The growth of market-oriented households and what came to be called "commercial society" had profound implications for practically every aspect of human activity. Prior to capitalism, life was governed by traditional institutions that subordinated the choices and destinies of individuals to various communal, political, and religious structures. These institutions kept change to a minimum, blocking people from making much progress but also protecting them from many of life's vicissitudes. The advent of capitalism gave individuals more control over and responsibility for their own lives than ever before -- which proved both liberating and terrifying, allowing for both progress and regression. [2]

From the outset, critics argued that capitalism would lead to greed and inequality. Adam Smith made the case that “self-interest” applied only to long-term benefits for investors, not short-term personal gratification. If pursued morally, it would result in benefits for everyone and would diminish no one.

German Sociologist Max Weber popularized the economic approach in *The Protestant Ethic and the Spirit of Capitalism*. Protestants (from Puritan roots) believed in the dignity of work and that hard work could yield success (the “Protestant work ethic”).

Austrian Friedrich Hayek was a strong proponent of “free-market” capitalism and criticized socialism as “serfdom” or slavery, diminishing freedom and human rights.

There is no single form of capitalism. Instead, suggests Muller [3], we find multiple forms of capitalism:

- Free-market (Laissez-faire) capitalism
- State-guided capitalism
- Social democratic capitalism (welfare capitalism)
- Corporate capitalism
- Entrepreneurial capitalism

The United States today is a combination of these multiple forms.

Criticisms

Capitalism has been criticized for creating the following conditions:

- Class conflict
- Income inequality
- Monopolies
- Short-term profit mindset
- Corruption in pursuit of profit
- Poverty and unemployment
- Negative impacts on the environment
- Depressed wages
- Excessive materialism
- Economic instability

When we examine the list we may conclude that the fundamental problem is not the structure of the system but basic human sinfulness: greed (love of money) and dishonesty.

Capitalism does not foster greed, because covetous desires already reside in every sinful heart, and increasing wealth or aggressive marketing appeals to these preexisting desires. Only the

gospel of Jesus Christ breaks the power of sin and provides an avenue to avoid these temptations.

Therefore, the existence of greed is not an indictment of capitalism, but rather should serve as an encouragement to local churches to advance the gospel, and help people to recognize the deceitfulness of riches and the temptation of advertising. This is essential for the good of individuals who, as independent moral agents, are responsible before God for every choice they make in the marketplace. [4]

Also,

Many theologians complain that capitalism promotes greed. Clearly, greed is evil. Jesus said to his disciples, “Beware, and be on your guard against every form of greed; for not even when one is affluent does his life consist of his possessions.” (Luke 12:15) And Paul wrote, “Therefore, treat the parts of your earthly body as dead to sexual immorality, impurity, passion, evil desire, and greed, which amounts to idolatry.” (Colossians 3:5) [5]

[Adam] Smith recommended fighting greed with competition. Remember that Smith said self-interest drives businessmen. But in a free market, competition forces greedy businessmen to labor to satisfy their customers because if they don’t, a competitor that serves customers better will take them away. The greedy businessman will grow poorer and be unable to satisfy his self-interest, let alone his greed.

Capitalism doesn’t prevent businessmen from being greedy. Only Christ can do that. But it prevents the businessman from hurting others through his greed. Capitalism suppresses greed. [6]

Other Myths

1. “Capitalism contributes to the misery of the working class.”

In his book The Foundations of Morality Henry Hazlitt explodes this myth when he writes: “Capitalism has enormously raised the level of the masses. It has wiped out whole areas of poverty. It has greatly reduced infant mortality and made it possible to cure disease and prolong life. It has reduced human suffering. Because of capitalism, millions live today who would otherwise never even have been born.” [7]

2. “Capitalism of the West is the cause of Third World poverty.”

P.T. Bauer...states: “Many of the assertions concerning Western responsibility for poverty in the Third World reflect the belief that the prosperity of relatively well-to-do persons, groups, and societies, is always achieved at the expense of the less well-off, that incomes are not generated by those who earn them, but are somehow extracted from others. In fact, incomes (other than subsidies) are earned by the recipients for resources and services supplied, and are not acquired by depriving others of what they had.” [8]

Analysis

Capitalism is not established in the Bible, but is more compatible with Scripture than socialism. It is not a perfect system, but is preferable to the alternatives. The Bible doesn't endorse capitalism but says much about work, freedom, private ownership, wealth, and poverty.

Contrary to progressive thought, having riches is not sinful – as long as they are gained honestly, strictly by wisdom and hard work, as long as they are not consumed only on oneself, as long as some is used to help others.

When first introduced, capitalism fit well with a Western culture steeped in Christian values.

Common criticisms of capitalism center on the existence of poor people and the gap between rich and poor, but that is not actually the fault of capitalism. In Biblical times and the Hebrew economy there were poor people. Part of the Law dealt with how to help the poor.

In 1985 Franky Schaeffer edited a series of essays titled *Is Capitalism Christian?* [9] The authors examined free enterprise and prosperity, socialist experiments in the Third World, socialist impacts in the USA, modern doomsayers, and Liberation Theology (which slides into Marxism). The conclusion: "Capitalism thrives on the political and religious freedom also essential in Christianity."

Modern Capitalistic Societies

No longer do we have simple buying and selling, using gold and silver backed currency. Instead, the modern capitalist economy involves

- A complex banking system, including a Federal Reserve System to set interest rates.
- A massive credit system.
- A complex stock market.
- Labor unions.
- Electronic banking and transfers.
- Thousands of pages of tax code.
- A massive insurance system.
- Government spending and borrowing.
- Global trade and parts supply

In addition, the system is complicated by inflation, welfare, politics, monopolies, crime, and corruption.

Modern capitalism fails to provide for good when it involves

- Any exploitation of workers;
- Coercive arbitration agreements;
- Non-compete clauses that prevent people from working; or
- Unbreakable monopolies

Prevailing forms of capitalism, even in the United States, are far from the pure forms Adam Smith envisaged. Even prior to, but especially since the writings of John Maynard Keynes in the early to mid-twentieth century, significant interventionist measures by the state have become standard—public education available to all children, Social Security, Medicare, Medicaid, and related programs for the uninsured or underinsured below certain socioeconomic levels, regulations on immigration, tariffs on imports and other protectionist measures to give American products and workers a more favorable market in international trade, income tax, regulations on the production and distribution of countless consumer products to try to ensure higher levels of quality control and safety in the use or consumption of those products, the dismantling of overly disruptive unions, the establishment of interest rates by the Fed, and many other similar government-run ameliorations of a pure market economy. Indeed, what is often not noticed by pro-capitalist writers who laud the success stories of the East Asian countries whose stunning economic growth has come as they enthusiastically embraced more capitalistic systems is that those nations have even more regulations and interventionist measures from the state than their Western counterparts in North America and Europe. [10]

Benjamin Barber, author of *Consumed* [11], discusses the failures of modern capitalism, not in terms of pure capitalism as it existed in the beginning, but our current culture of “consumer capitalism”:

- There is no such thing as overproduction. Consumers simply bought too little. (p. 11)
- Merchandizing is key to the current economy. Corporate markets can turn education into an opportunity for marketing to kids. (p. 15)
- Consumer branding (brands, trademarks, slogans, and emotional product loyalty) defines who we are. (p. 15)
- In place of the good of society we are taught to pursue personal betterment and individual empowerment.
- Manufacture of goods to meet real needs has become the manufacture of *needs* to absorb the abundance of goods. (p. 45)

This is the culture of Bill Gates and Elon Musk, the world of popular video games, fast food, movies, TV shows, music stars, sports teams, and theme parks. The associated media encourages us to consistently choose easy over hard, simple over complex, fast over slow.

In the gospel of consumption, shopping is a vocation. Malls become the temples of materialistic devotion.

Conclusions

Capitalism has numerous problems, mostly compounded by human sinfulness. Compared to the alternatives, however, and in the light of our fallen world, it is currently the best option for society.

References

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