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## **The Ethics of Capitalism: An Introduction**

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## Introduction

### What Is This Book about?

In this chapter, we lay out the basic question of this textbook: what do we mean by asking about the “ethics” of capitalism? And what makes this question so important that it gets its own book? We’re going to get started by clarifying the intellectual discipline of *political economy*, emphasizing its philosophical and moralized content. This will help us draw your attention to the problem of economic justice. We’ll then use this chapter to distinguish capitalism from alternative institutional systems before articulating the key questions about capitalism and justice that we will ask, and the methods we will use to consider various answers to them.

### 1. Everyone Hates Capitalism?

When you type a recognizable word or phrase into an internet search engine, you’ll get presented with some extra words that you might use to narrow your search—we call these “autocompletes.” Try doing this with the phrase “capitalism is.” When we tried, the autocompletes were quite a dramatic bunch. They included “bad,” “slavery,” “failing,” “exploitative,” “a pyramid scheme,” and even “the root of all evil.” What’s interesting about these autocompletion results is that they reflect frequent actual searches by human internet users. As such, they provide reasonably good evidence of how a large body of people actually feel about any given search terms. By this admittedly somewhat unscientific measure, capitalism has an image problem.

This is consistent with polling in the United States and elsewhere. In 2016, Harvard University asked 18- to 29-year-olds whether they “supported capitalism.” Only 42% said that they did. In a similar poll conducted by YouGov in 2017, millennials in the United States were asked whether they would prefer

to live in a capitalist, socialist, communist, or fascist country—only 42% picked the capitalist option. Compare this to a poll taken in 2002 when 80% of Americans said capitalism is the best system to live under. In Europe and other parts of the world, the numbers are even starker. In France, for instance, only 6% of respondents “strongly” support capitalism, and overall support is only 30%. Capitalism’s image around the world has rarely been worse, it seems.

Such an assessment is backed up by other, more localized evidence. If you’re reading this book, you’re probably a university student, or perhaps a recent graduate. Your campus probably has various groups that present themselves as being in some way opposed to capitalism. On and off university campuses, it’s easy to find activist groups and various campaigns that seek to emphasize some sort of failing of capitalism or some injustice associated with it. And there is a good deal of popular writing—books and journalism—that blames various contemporary global problems or injustices on capitalism, in whole or in part. It is much harder to find genuine grassroots activist groups that seek to defend capitalism.

The various “anti-capitalist” groups on campus often stand up for concerns that are genuinely important. In Melbourne, Australia, where we lived when writing this book, student Marxist and socialist groups worked hard to highlight such urgent matters as the mistreatment of migrants in offshore detention facilities that the Australian government has created, but tried to keep hidden from public scrutiny. There are good grounds for regarding such practices as gravely unjust, and we give them some discussion later in this book (chapter 8, on trade and migration). In the past, socialist groups highlighted the injustice of segregation in the United States and apartheid in South Africa. It’s good when activist groups draw attention to injustices. But does opposition to apartheid or racial segregation *require* any prior opposition to capitalism? That remains to be seen—indeed Nelson Mandela, perhaps the most famous opponent of apartheid, had relatively positive things to say about capitalism (see chapter 3). More generally, one of the goals of this book is to open up the possibility that highlighting an economic injustice is not the same as highlighting a *capitalist* injustice.

## 2. What Is Capitalism?

We might begin by asking, why is capitalism so widely disliked? But in a way, this is the wrong question. Instead, it is better to ask two other questions:

1. What is it that people actually dislike?
2. What kind of thing is capitalism?

The first question is easier. What people dislike are problems or injustices in the status quo with regard to economic matters and how governments approach them. But the status quo is not straightforwardly identical with capitalism. And it’s not obvious that most aspects of the status quo are the way they are *because* of capitalism.

One can say this without even having a theory of what capitalism really is. This is due to the fact that, in most countries at most times, the way of regulating the economy never aligns completely with *any* theoretical view about how such regulation ought to be done. Typically, the status quo is a hodgepodge, whose laws and policies reflect a mixture of capitalist, socialist, and even feudal elements, shaped not just by legal and economic forces but also by prevailing social norms and other environmental factors. For sure, countries tend to err toward one system rather than another. But very few societies represent a pure instantiation of any theoretical system. There may be *something* that is as bad as (according to the search engines) people think it is. This thing may be representative of major aspects of how society and the economy are currently organized. But that thing may not be capitalism—it could even turn out that capitalism is part of the remedy.

One aspect of the economic status quo that people typically find troubling is the persistence of poverty. Certainly, poverty is bad and results in all sorts of harms and problems. Poverty exists in all societies, rich or poor, including societies that tend toward a capitalist system of organization. The same is true of inequality, oppression, and other factors commonly seen as unjust, or at least bad. What we need to know is whether capitalism or its rivals are better or worse at alleviating poverty and other bad things. This is a *comparative* question. We compare the working of actual capitalist societies with plausible alternatives the best we can using the tools of economics, social science, history, and philosophy. We know at the outset that neither capitalism nor its rivals are perfect; the question is which is likely to be *better* along the dimensions we care about.

The second question is harder. The term “capitalism” was introduced and popularized by its opponents (most notably by Karl Marx), so looking at the actual usage and history of the term is likely to give a one-sided picture. There is a tendency by critics and friends of capitalism alike to identify capitalism

with the “free market” or with markets in general and to view government as something that meddles with the free market and gets in its way. When speaking of “economic ills” in 1981, Ronald Reagan famously said that “government is not the solution to our problem; government is the problem.”<sup>1</sup> Reagan is known for being among the first politicians to bring such talk into the mainstream, even though capitalism was around for at least a couple of centuries before he started using such slogans.

More important, markets have, to a certain extent, always existed. As we discuss in later chapters, exchange and trade are characteristically human endeavors and we find, albeit limited, trade in our earliest human ancestors. But this leaves room for much nuance as to what markets are good for and what their relationship should be to government and laws.

The idea that a proper defense of capitalism involves the worship of markets and a suspicion of governments is a mistake (one that we’ll say more about in chapter 3). As we’ll explain in chapter 4, markets aren’t the sort of things that straightforwardly become more and more “free” as government “interferes” less. Talk of free markets in the sense of markets without rules may not even make strict sense. The economist Ha-Joon Chang has actually said that “there is no such thing as a free market.”<sup>2</sup> Part of Chang’s point is that markets don’t work without a number of laws and norms that, by definition, restrict the freedom of people and companies. This is absolutely right and is partly why the popular term “free market” is one that we have chosen not to use often in this book. We would encourage you to talk of *market freedoms* instead. After all, it is not really markets that are free or unfree, but participants within them, namely individual people and organizations, like firms, who are in a position to possess (or be denied) the market freedoms (principally of property and contract).

In any case, the relationship between markets, government, and social norms is a complex one. For instance, social scientists have become increasingly interested in the question of trust in market societies. Societies with advanced markets tend to be very trusting societies, but one of the puzzles is whether trust is required to have well-developed market societies or whether well-developed markets generate trust. High-trust societies also tend to have better functioning governments with lower levels of corruption, but again

<sup>1</sup> From his Inaugural Address, that is, the speech Reagan gave upon being sworn in as President of the United States.

<sup>2</sup> Chang (2010). Similar points are made by the philosopher Debra Satz (Satz 2010, chap. 1).

the question of which came first is central. Increasingly, economists and political scientists see markets societies and democracy as arising together from a background set of institutions that create the conditions for openness and inclusivity.<sup>3</sup> Treating the relationship between markets and freedom as all or nothing tends to be a mistake of both the “purest” defenders and opponents of capitalism.

It is better, then, to think of capitalism as a certain approach to *harnessing* and *promoting* markets, in part with the help of government and civil society, not a deference to markets as such. We see market forces at work at all levels of society and throughout history. Even (especially) where trade is banned, for instance in socialist societies or with certain goods (e.g., drugs, sex, guns, etc.), we see market forces emerge in so-called black markets. Often, these markets are where we find the worst injustices and most distasteful practices. Black markets also provide a source for innovations that often get inserted later into the regulation of legal markets. One of the earliest employer pension schemes was pioneered by a successful 18th-century pirate called Bartholomew “Black Bart” Roberts.<sup>4</sup> With modifications, such schemes have become a familiar feature of legitimate labor markets (pirates still exist, too, but we’ve been unable to establish whether they still offer pension schemes).

Market forces are powerful and virtually impossible to eliminate. We find markets emerging in most intuitively unlikely of places, such as prisons.<sup>5</sup> But market forces at work where they don’t belong can be extremely destructive. For instance, markets in political power where politicians sell their votes and services to the highest bidder are not only unjust but also inimical to the function of a market economy that benefits everyone in a capitalist society. Indeed, it is often in places with weak market institutions that political corruption is so prevalent.

Market forces and markets are ubiquitous, and yet the existence and promotion of markets alone are not the “essence” of capitalism. What, then, is? Maybe, we can think of capitalism as being an institutional structure that

<sup>3</sup> See the work of Daron Acemoglu and James Robinson, especially *Why Nations Fail* (2012), as well as the work of Douglass North, John Wallis, and Barry Weingast, especially *Violence and Social Orders* (2009).

<sup>4</sup> Piracy was encouraged by a mercantilist world order; see chapter 8. For a summary of the pirate’s code, see [https://en.wikipedia.org/wiki/Pirate\\_code](https://en.wikipedia.org/wiki/Pirate_code); for an economic analysis of pirate codes and constitutions, see *The Invisible Hook*, by Pete Leeson (2009).

<sup>5</sup> The James Clavell novel (1962) and movie *King Rat* (1965) is a particularly good illustration of the power and importance of trade even in a Japanese prisoner-of-war camp during World War II.

seeks to align markets and market forces in certain ways—namely for mutually beneficial exchange. The philosopher John Rawls wrote that society is a “cooperative venture for mutual exchange.”<sup>6</sup> He had much more to say on this, but his description is a pretty good slogan for capitalist society as well.

Perhaps it would be better to talk about “commercial society” rather than capitalism. Indeed, this is how the early political economists like Adam Smith described the society they were beginning to see emerge in their time. The emphasis on commerce is useful, even though we may be stuck with the term “capitalism.” Commerce is trade, and capitalism is a system of institutions that creates and stabilizes the conditions of productive and peaceful trade. Capitalism, then, is defining and respecting people’s market freedoms with the right set of rules and norms so that mutually productive and peaceful trade can flourish.

In many respects, no two capitalist societies are entirely alike, so there is limited value in generating an exhaustive, philosophically precise definition of capitalism. That said, any definition of capitalism can’t be so broad that it includes too many societies that don’t seem capitalist, nor so narrow that it excludes many existing societies that seem obviously capitalist. Especially in debates with socialists, there is a tendency to compare existing capitalist societies to idealized socialist societies. Sometimes defenders of capitalism do the opposite and compare “ideal” conceptions of the market, for example, ones in which everyone has complete information and competition is perfect, to existing socialist societies. Both approaches fail to make real progress. For a comparative approach to work, we need to compare apples to apples. While there is value in comparing idealized systems against each other, actual capitalist systems, with all their warts, need to be compared to actual socialist systems and other alternatives.

To do this, though, we need to make sure that any definition of capitalism, however flexible, at least captures most existing societies that are seen as more or less capitalist. One crude way to do this is to use a proxy measure like the Economic Freedom of the World Index, which is produced annually by the Fraser Institute. Their methodology measures size of government, legal system and security of property rights, sound money, freedom to trade internationally, and regulation. In the 2019 report, the top countries on their list were:

1. Hong Kong
2. Singapore

<sup>6</sup> This idea is developed at length in Rawls’s *A Theory of Justice* (1999).

3. New Zealand
4. Switzerland
5. United States
6. Ireland
7. United Kingdom
8. Canada
9. Australia
10. Mauritius
11. Malta
12. Georgia

Some countries on the list are perhaps surprising, like Georgia or Mauritius, but maybe this just shows how different reputation can be from reality (note, though, that economic freedom is not all freedom—how a country governs with respect to other types of freedom doesn’t directly affect this ranking—and at the time of writing, things are becoming steadily more uncertain as to the future of political freedom in Hong Kong). On the other hand, looking at the countries that are rated for the worst economic freedom largely includes countries not widely regarded as capitalist:<sup>7</sup>

150. Chad
151. Central African Rep.
152. Guinea-Bissau
153. Iraq
154. Congo, Rep. of
155. Egypt
156. Syria
157. Congo, Dem. Rep. of
158. Angola
159. Algeria
160. Sudan
161. Libya
162. Venezuela

<sup>7</sup> It is worth noting that North Korea was not rated because basic data about the regime are unavailable. If rated, it would surely be number 163 on the list. Other countries not rated were Iraq, Afghanistan, Belarus, Sudan, Turkmenistan, Somalia, and Uzbekistan.

A country's economic freedom score is highly correlated with its per capita income.<sup>8</sup> Countries that are unfree, like Venezuela, have very low per capita incomes, while countries that are very free, like Hong Kong or Canada, have very high per capita incomes. The ranking on the list also correlates well with where people around the world are trying to enter as immigrants and from where they are trying to escape.

This gives us one way of arriving at an approximate and preliminary definition of capitalism. Although we will expand on this somewhat, we should think of capitalist societies as those that rank highly on most of the measures that the Economic Freedom of the World Index highlights. In particular, capitalist societies will have:

- A. Strong legal protections for private property
- B. Wide dispersion of private property across their population
- C. Extensive international trade
- D. Consumer sovereignty (including competition in the provision of goods and services)
- E. Diversity of employment contracts

Existing capitalist countries will have these features to greater or lesser degrees, but without at least meeting these (admittedly broad) conditions, it is unlikely that we would consider the society in question capitalist.

The first two conditions are important since private property ownership and the rights protecting private property are necessary for trade. By "private property" we mean a wide range of things—basically, anything that is typically bought and sold. Of course, there are important ethical and philosophical questions about exactly what should count as property, and whether all property should be fully tradable—you own your body, surely, but can you sell (or rent) it? These are questions that we take up in chapter 12 but that we leave aside for now. It is also important that basically anyone can, and most people do, own private property of some sort. It is also difficult to imagine a capitalist society that doesn't permit extensive international trade, though most nations have some protections for domestic industry, often by way of taxes (tariffs) on imports.

<sup>8</sup> Per capita income is a measure of gross domestic product (GDP) adjusted for purchasing power parity (PPP). Basically, it is a measure of how much the average person can afford to buy in their society corrected for differences between currency and quality. Despite some problems, this is the best measure of how rich a society is and a defensible proxy for the level of general welfare in the society.

Consumer sovereignty means, in this context, that decisions about who produces what and to what extent are primarily driven by consumer demand. What Robert Nozick called "capitalist acts between consenting adults" tend to be neither forced nor blocked in capitalist societies.<sup>9</sup> If consumers really demand a good, the market will deliver it. If they don't want it, no one is forced to produce it. At the same time, nobody is prevented from being able to produce something new if they think consumers might be willing to pay for it. Similarly, a producer who has enjoyed some period of time being able to sell some good or service should not be able to suppress the activities of anyone seeking to compete with them. There are some special cases here, including what are called "public goods," but we talk about those in more detail in later chapters.

The final point is about labor and employment contracts. In capitalist societies, there are many types of labor contracts. Questions about whom to hire, for how long, and at what price are determined largely by the labor market and not by the state or other entity. Although "at-will" employment, whereby an employer can fire a worker for any reason, may seem to be the most "capitalist" form of labor contract, it might not be the most appropriate in every industry or for every employer and, hence, it is likely that there will be other types of labor contracts. It is here, perhaps, that we see the most variety in and between different capitalist societies.

### 3. What Are the Alternatives to Capitalism?

Given the definition of capitalism that we defended in the last section, it is worth asking what the possible alternatives to capitalism are. For simplicity, we can think of two different competitors. The first is the political economic system that existed throughout the world in one form or another before the rise of capitalism and still exists in a number of places. We call it *feudalism*. If you have any intuitive sense of feudalism, you probably associate it with conditions in medieval Europe or in the various fictional worlds resembling it, like *Game of Thrones*.

In these societies, there existed peasants and their lords and not much in between. More generally, feudalism is really any hierarchical political

<sup>9</sup> Robert Nozick offers a view of the market based on strong rights to noninterference and property in his *Anarchy, State, and Utopia* (1974).



and economic system that restricts property ownership, employment, and trade significantly in the service of maintaining explicit legal and social distinctions of rank. Rank or status in feudalism is usually conferred through hereditary succession. Protection for property may not be a right in the traditional sense at all, but rather a privilege that depends on the continued goodwill of the reigning authority, who is likely to demand loyalty and sacrifice in return. Feudal societies tended to maintain their structure through very violent means of enforcement, which is perhaps why they make for popular television adaptations.

In addition, private personal property may be widely owned in a feudal society, but productive property and financial assets will be controlled by a small elite. Property of the *productive* sort is much more widely dispersed in capitalist societies. Currently, around two out of three Americans own stocks in publicly traded companies. Of course, this doesn't mean that they directly control the companies, and their investments are very often indirect, for example, via a pension scheme. But nevertheless these Americans have (or will come to have) a source of income through ownership of capital (i.e., productive property), rather than just the sale of their labor. Perhaps more surprising is the fact that in 2017, there were 28 million small businesses in the United States that were individually owned, most with only one or two employees. Approximately 120 million Americans are employed by small businesses—that's a group of people six times the size of Australia or twice the size of the United Kingdom. In hierarchical societies, however, trade, both internal and external, tends to be severely restricted. In feudal societies of the past, for instance, sumptuary codes regulated who could wear what kind of clothes in public. Consumer sovereignty in general is not a major force in feudal or hierarchical societies.

The most important distinction, however, between capitalist and feudal societies concerns employment. Employment in feudal societies is typically not contractual and tends to be based heavily on one's status within the society. At the extreme, there is slavery, or serfdom, where workers are tied to the land and may not move or change jobs (which is almost slavery). In capitalist societies, workers may often have limited options as to what work is available, but they can always, in principle, move somewhere else or attempt to acquire additional skills. Feudal societies block these options to one degree or another.<sup>10</sup>

<sup>10</sup> Feudalism in this, general, sense is the most common way to organize states in human history, a specification of Douglass North, John Wallis, and Barry Weingast (2009) call the "Natural State."

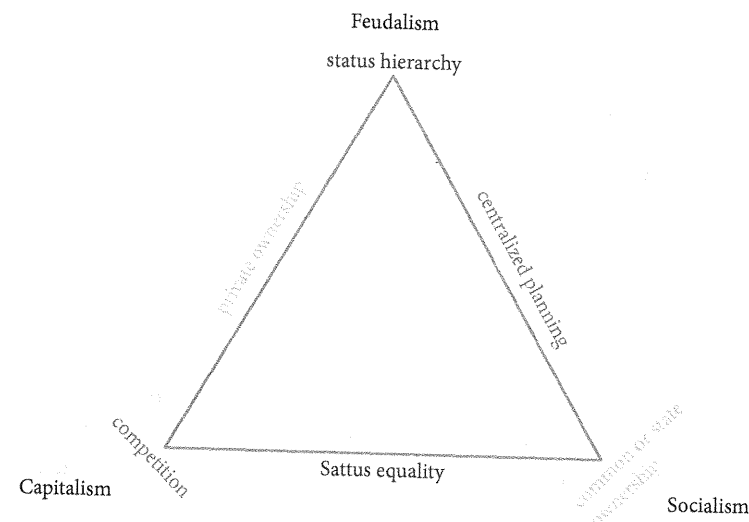


Figure 1.1 Political Economy Triangle

Perhaps the most important thing to say about feudalism is that it still exists. It is not merely the stuff of history and fictional TV shows. Some current societies, like North Korea and Saudi Arabia, approximate feudalism far more closely than either capitalism or socialism. This may sound like a strange claim, particularly as North Korea brands itself as communist and the Gulf States have quite sophisticated infrastructure. But were it not for nonfeudal societies from which these countries can import certain goods and expertise, they might resemble medieval Europe much more closely than they in fact do. Apart from that, Saudi Arabia and North Korea are very much alike in that much of the workforce suffers conditions of near slavery, while the few who enjoy power, status, and wealth have had it conferred on them via hereditary privilege (the Kim dynasty in North Korea is really a hereditary monarchy not unlike the Saudi royal family).

So how should we distinguish these different economic systems? Figure 1.1 represents a way of "mapping logical space," that is, getting a sense of how different economic systems relate to each other, for the purposes of doing political economy. The shaded descriptions identify mutually opposing concepts, helping us jointly distinguish two systems from one of the others. For instance, a planned economy, with strict rules about who can't or must perform what sort of work, is a shared feature of feudalism and socialism,



contrasting both with capitalism, in which production and distribution rely primarily on competition and markets where consumers, rather than producers or planners, reign.

The triangle does two things for us. First, it helps define in a more comparative way what we mean by “capitalism” and what we mean by “socialism” and “feudalism.” As we have said, in this book we define “pure” capitalism as the economic arrangement in which power is decentralized, property is widespread, and employment options are diverse. What this means is that nobody has any exclusive or protected ownership or control of “the means of production” (to use the old-fashioned term), and people generally have economic freedoms in the ways necessary to facilitate competition among them and the companies that might employ them (companies are typically legal “persons,” in that they can own property and participate in contracts). This is, in fact, a fairly orthodox definition of capitalism, at least by contemporary standards in the political economy literature, and it fits with what we said in the opening sections.<sup>11</sup> Our emphasis is not on persuading you to accept any sort of unorthodox definition, but just to get a sense of how the definition of capitalism doesn’t just serve to distinguish it from socialism but—just as important—from feudalism as well.

Second, the triangle helps us map the *range* of possibilities when it comes to the organization of an economic system. This enables us to identify both where we are and where we might aim to go. It does this while allowing for the important fact that conformity to any political economic system is a matter of degree. As we’ve said, real-world economies typically embody some combination of capitalist, feudalist, and socialist elements: they occupy some “point” inside the triangle rather than sit tightly into any of the corners. The ultimate question of economic justice—the question of which sort of economy is most just—approximates the question of which point within this space an economy ought to be. This may not be one of the corners either, though it may be much closer to one corner than to the others. There will be some point within the triangle (or perhaps several points, or a “zone”) that represents which combination of the economic systems is the one that is the “best” given some conception of economic justice. Identifying where this point lies is the *moral*, philosophical objective of political economy. And this book is about trying to help *you* do that, by familiarizing you with

the questions you need to grapple with, as well as with some of the answers defended so far by others.

The labels attached to the triangle’s side might refer to slightly different things, depending on how close we are to the corners. For example, “planning” in a feudal economy will differ from planning in a socialist economy. Feudal planning involves coercion of the working masses to serve an elite. Socialist planning will also involve coercion, but the planning can take many different forms. The state will make decisions as to which industries and jobs should exist, but workers may (or may not) have quite extensive freedom to choose which job suits them and work in industries that are designed to serve everyone. Capitalism is an opposite to both of these systems at the same time, just because planning of either sort is largely absent.

Socialism makes plenty of room for things not usually found in feudal societies, like paid holiday, and free education and healthcare. In this way, socialism can aim at status equality, perhaps of a sort different from whatever status equality is achievable in capitalism. In contrast, feudalism was very much built on status *inequality*. As we’ve said, only a privileged few could own substantial property in land, which inheritance prevented from dispersing around the population. Women typically couldn’t own substantial property of any sort, and most feudal societies contained some form of slavery. In this way, though the status equality associated with capitalism and socialism is not the same, there is a strong sense in which they are both opposite to the hierarchy of feudalism.

Similarly, “private ownership” in a feudal society may simply mean that the means of production are owned by private individuals. In capitalism, private ownership involves a wide dispersion of property rights, and certain requirements about how easy it is to exercise these rights along with other economic rights, like freedom of contract. Though these systems of private ownership differ from each other, they are both very different to the state ownership associated with socialism.

There are, frankly, no good arguments for feudalism, or at least not arguments that are seriously seeking to show that feudalism promotes justice. The point of having that triangle we showed you earlier is not to take feudalism seriously as an alternative for where we should *go*, but as an alternative when thinking about where we might *currently be*. This makes it easier to identify unjust economic arrangements as something other than versions of capitalism or socialism. As we’ll argue in chapter 3, a number of status quo

<sup>11</sup> Our definition is very similar to that used by Samuel Freeman (2001) and James Otteson (2014, 12).

injustices are not accurately blamed on capitalism but may be remnants or resurgences of feudalism.

Remember, though, that graphic illustrations like the one earlier are just *heuristics*: they are simplifications to help get us get started and to avoid some mistakes early on. A picture of a triangle with some labels is hardly a complete theory or methodology. You're entitled to think for yourselves about how to expand on definitions of the various economic systems, and of the relations between them. Just don't think of capitalism and socialism as binary, absolute alternatives that exhaust the set of possibilities on offer. In particular, if you perceive some aspect of the status quo that you think might be unjust, consider whether it might be an aspect of capitalism, socialism, or a leftover influence of feudalism. It could, in principle, be any of these three things, even if the system overall tends toward another one of the three extremes. Unfortunately, popular discourse often oversimplifies, particularly with the use of labels like "left wing" and "right wing," which promote precisely the sort of one-dimensional picture of logical space that the triangle helps us avoid.

And please remember another thing: though this book will evaluate capitalism in ways that start by looking at the thoroughly *moral* arguments first given in its favor, we will not try to persuade you of the right answer. That is not what this book is for. Instead, to repeat, it is to *help* you think of what makes a better or worse political/economic system—where in the triangle we should aim at.

#### 4. The "Ethics of Capitalism": An Oxymoron?

We have said that it's hard, nowadays, to find *heartfelt* support for capitalism. But it is relatively easy to find a reluctant, perhaps begrudging, endorsement of what passes for capitalist ways of running contemporary societies. Thus, it is sometimes said that socialism is a utopian but unrealistic body of ideas—one that simply assumes that people would be willing to work hard for the common good. Socialist theories, it is often said, simply go about describing how nice things would be if this were so.

Of course, the begrudging defense of capitalism goes, such optimistic assumptions about human nature are false. The reality is that humans are selfish creatures, who seek to advance their own good over that of society, perhaps only seeking to help close family and a few friends. To get people

to be productive in ways that benefit everyone, we need to set up society with the right incentives. This inevitably results in things like economic inequality, high levels of consumption, and pretty harsh enforcement of laws that protect private property. This state of affairs may be less desirable than a socialist utopia, but it's the best we can hope for. After all, feudalism as a third alternative is horrible.

Those who advance such an argument see it as an *effective* defense of capitalism—and it may be—but it's not typically sold as an *ethical* defense. On this approach, capitalism simply has no "ethics," in terms of having moral foundations. Instead, it's a sort of remedial way of organizing the economy, one that tries to save us from ourselves and from each other, without aspiring to any higher moral goal or justification. On this view, capitalism is, at best, second best. Socialism may have moral foundations, but it's utopian—capitalism, on the other hand, is *realistic*.<sup>12</sup> Or so this defense goes.

Once upon a time, things were different. The philosophical defense of capitalism was once a good deal more aspirational than the reluctant defense often voiced today. Capitalism was not seen as the best of a bad bunch of options. Instead, it was seen as a force for justice as well as prosperity. As we've said, the word *capitalism* did not enter widespread usage until late in the 19th century. Its early proponents talked of "commercial society," or "the system of private property." But capitalism, properly understood, was very much what they had in mind. A capitalist economy, they argued, was one that would see less material poverty, less domination of workers by bosses, increased leisure time, more peace and less war between countries, reduced levels of arbitrary privilege, greater potential for the spread of education, democracy, and other values associated with a rise of the middle class, and the erosion of a society dominated by a wealthy and largely hereditary political elite. Moreover, these early thinkers were right—capitalism did lead (eventually) to less poverty, domination, peace, freedom, education, the erosion of privilege, and democracy. All of these things seem not only like material advances but also *moral* advances.

Starting in the 18th century, most notably in Adam Smith's *The Wealth of Nations* (1776), various philosophical accounts emerged of how capitalism

<sup>12</sup> You can find slightly longer summaries of what we're calling the "reluctant" defense of capitalism, and how it contrasts with the supposedly more moralistic case for socialism, elsewhere. See Jason Brennan (2014) and James Otteson (2014).

could achieve all or nearly all of these things.<sup>13</sup> Now, the 18th century was a long time ago. It's fair to say that the current status quo was not what the early standard bearers of capitalism were hoping for. But many contemporary economic injustices are actually quite old, too. The world's most economically developed countries all exhibit some combination of overly expensive housing, inherited wealth on a large scale (but concentrated into a small portion of the population), government willingness to use taxpayers' money to pay for failures in financial industries, some degree of material poverty alongside great wealth, failure to grant workers freedom of movement, massive corporations that sometimes dominate their employees and exercise disproportionate political influence, and draconian punishments that the state imposes on private citizens for buying and selling certain things.

There is reasonable disagreement about how bad these problems have become and what ought to be done about them. But it's worth noting that all, or nearly all, of these injustices were running riot at the time when capitalism was a new idea. Capitalism was supposed to fix these problems, not make them more entrenched. A popular answer is that these trends are all various symptoms of the way in which capitalism is unjust. Another view, one worth taking seriously, is that they mark ways in which capitalism has remained absent, or represent consequences that could be made to disappear without rejecting capitalism altogether.

In short, here's the "hook" for this book: if we want to figure out whether capitalism is just or unjust, we can start by asking why people were inclined to defend it (on thoroughly moral grounds) in the first place. And once we've identified the essence of the moral foundations for capitalism, we can ask whether capitalism's supporters would have been happy with how things have turned out since. The short answer (we think) is that, in large part, those who saw capitalism as a route to a more just society would have been pretty disappointed with many aspects of the status quo in the 21st century. In short, a theory of *why* capitalism is a force for good will allow us to come to a more sophisticated perspective on what's wrong with the economic aspects of contemporary society and what ought to be done about them.

<sup>13</sup> Throughout we use the Liberty Fund editions of Adam Smith with the *Wealth of Nations* (Smith 1982) abbreviated as WN and *Theory of Moral Sentiments* (Smith 1976) as TMS.

This task is what will occupy us over the twelve chapters in this book. We'll begin with a brief history of how the moralized evaluation of economic systems got going. This will give a sense of how the philosophical defense of capitalism emerged and also of why it has become somewhat suppressed by the way in which the study of economic matters has become distanced from the study of morality and justice.

## Conclusions

*This chapter has shown that the foundations of a capitalist system are moral foundations. It has also shown that defending capitalism is not the same thing as defending the economic status quo. Instead, working out how to identify conditions of economic justice is very much about comparing against not one but two alternatives, which we've identified as socialism and feudalism. In reality, the distinction between capitalism is neither binary nor absolute—it is more accurate to think of economic justice as a "region" of the logical space that lies between extremes of very pure (perhaps unattainable) extremes of these three systems. The task of providing moral foundations for capitalism lies in arguing that economic justice is closer to the capitalist extreme than the other two, noting that this leaves much room for alternative ways of refining a capitalist economic system.*

## Study Questions

- How often do you find yourself arguing with people, or being presented with arguments, that treat the current economic status quo and capitalism as the *same thing*? How much do you think this has influenced the way you think about economic justice?
- Can you think of an aspect of your country's status quo that resembles feudalism, even if it is not typically represented as such?
- We've suggested that people often treat socialism as utopian and idealistic while seeing capitalism as more realistic and concessive to "facts" about human nature. Do you think it's especially difficult to be both

realistic and morally aspirational? And do you think it's harder for capitalism to be both of these things than socialism?

- How distinctive is economic justice from other sorts of justice? For example, do you think that a society exhibiting injustice along (say) racial or religious lines is more likely to exhibit economic injustice? Why would you think this?