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# Fighting myths about capitalism

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More than any other social science, economics mystifies most people. At the same time, it is difficult to find anyone who does not hold strong views about economic issues. More often than not, however, the views are in stark contrast with the facts.

One widely held myth is that if one is a proponent of capitalism, then one must also be pro-business. Nothing could be further from the truth. Proponents of capitalism are pro-consumer, not pro-business.

The myth about the link between capitalism and big business probably arises because defenders of free markets often oppose taxes, regulations, and mandates that are also opposed by the business community. But they fail to realize that the advocates of free markets oppose anything which restricts vigorous competition that translates into lower prices and better quality for products, policies which protect the consumer from the avarice of business.

Actually, big businesses are often enemies of free enterprise. While espousing free enterprise and competition in the abstract, in practice they lobby for tariffs, subsidies, bailouts and protective regulations. It is expected that businesses would pursue their interests, but not for the government to cater to these interests.

A study by the Cato Institute, a libertarian think- tank, concluded, “Corporate welfare in the federal budget costs taxpayers almost $100 billion a year … Policy makers claim that business subsidies are needed to fix alleged market failures or to help American companies better compete in the global market. However, corporate welfare often subsidizes failing and mismanaged businesses and induces firms to spend more time on lobbying rather than on making better products … Americans are sick and tired of ‘crony capitalism,’ and the way to solve the problem is to eliminate business subsidy programs.”

A second myth is that capitalism is heartless; if left unchecked by government, it produces unacceptable social conditions like child labor. But child labor is the direct result of poverty, and certainly is not a by-product of capitalism; rather capitalism is the solution to both poverty and miserable working conditions.

The case for capitalism has always been that it is the only system that maximizes both economic growth and individual freedom. And by maximizing economic growth it strengthens the demand for labor which forces business to pay higher wages and improve working conditions.

In rapidly growing states as North Dakota, reports reveal that fast food establishments give signing bonuses and a starting salary of $15 per hour with benefits. Similarly, stockers at Walmart in some cities in that state make around $19 per hour with benefits and an added bonus of free housing. It is this rapid economic growth that provides the real protection for labor under capitalism, and not the minimum wage or labor unions.

A third myth is to blame free markets for causing the Depression of the 1930s, and more recently the financial crisis of 2008. The fact is it was the government interference that created both crises. In the case of the sub-prime housing debacle, it was the monetary policy of the Federal Reserve System, the government push to expand low income home ownership and the subsidies provided by Fannie Mae and Freddie Mac that led to over investing in housing and the crisis. The private sector can be only blamed for responding to the incentives created by government.

Two myths relating to the Great Depression of the 1930s are now “urban legends”: first, the cause of the Depression was the October 1929 crash in the stock market; second, the interventionist economic policies of President Franklin Roosevelt ended the Depression. Neither is true.

As the late Noble laureate Milton Friedman has shown, it was the drop in the money supply by a third which turned a minor recession into a depression.

Seven years after FDR took office, the unemployment in 1938 had shot back up to 19 percent. Here is Henry Morgenthau the Secretary of the Treasury testifying before the House Ways and Means Committee in 1939: “We have tried spending money. We are spending more than we have ever spent before and it does not work. ... I say after eight years of this administration we have as much unemployment as when we started … and an enormous debt to boot.”

Morgenthau’s honesty is particularly refreshing since he played a major role in designing and financing FDR’s New Deal. Government interference in the economy didn’t work then and hasn’t worked since because it comes at the expense of the private sector.