



Capitalists: the real revolutionaries

Tuesday 18th October 2011, 1:44am

EDITOR'S LETTER

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ONCE again, Apple, the world's most successful company, has pulled it off: it has sold 1m of its latest iPhone in its first 24 hours, smashing all the records. But this statistic should be of interest to more than tech geeks: it says a lot about how fast economies can evolve, especially in times of stress and readjustment. It also shows just how powerful an agent of change capitalism really is, and how the pure market economy – as opposed to the soft, corporatist, rigged version that dominates so much of our society – relentlessly disrupts and overturns existing corporate power structures. There was a time when the excitement came from BlackBerry; once, believe it or not, it even came from Nokia. No longer.

As Deloitte's economist Ian Stewart points out, the transience of economic power in a dynamic market economy is demonstrated by the intriguing fact that none of the world's top ten companies in 1912 were in the top 100 by 1995. Joseph Schumpeter, the great economist, famously argued that capitalism is a process of creative destruction. This is always true – companies, practices and business models are being shredded all the time, products launched and pulled, and capital and labour constantly reallocated to better uses. What the pseudo-Marxist crew camping on the stairs of St Paul's doesn't understand is that capitalism is the truly radical, revolutionary and subversive system. That is why so many people on the right – the poujadiste tendency that hates free trade, big companies and finance – doesn't like capitalism. If you don't like change, and think that "progress" is a bad thing, then you won't like the market economy and will want to tame it, control it and slow it down with red tape and bailouts.

Schumpeter's process of creative destruction applies when the times are good as well as when the times are bad. But recessions destroy capacity and shift resources at an especially fast rate as bust projects and firms are liquidated in vast quantities very quickly (if the market is allowed to operate freely). A recession can be seen as an acceleration of the process of change: far more structures and capital are destroyed than in ordinary times, causing GDP to fall and unemployment to soar, at least for a period of time. The bigger

the bubble, the more dud projects and the greater the malinvestment, the bigger the subsequent liquidation will be and the greater the transitional pain.

But while everybody always and understandably focuses on the anguish and destruction inevitably seen during periods of readjustment – especially the rise in unemployment, which is always deeply tragic – they usually miss out the opportunities and growth that occur during periods of economic stress. It is almost always forgotten that the recessions of the 1930s (and prior to that, the 1870s) were periods of great technical change and innovation. Microsoft was founded in 1975, when the US economy was in recession. Apple's share price has risen 400 per cent since Lehman Brothers collapsed in 2008, thanks to the success of its new products.

As Daniel Mitchell of the Cato Institute puts it, capitalism without bankruptcy is like Christianity without hell. It's just not the real thing. The problem with bail outs is that they delay fresh thinking and wealth and job-creating innovations. It is a shame those who criticise capitalism are so blind to its real nature.

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