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Myths about Capitalism

By Daniel J. Mitchell
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In addition to his side job as Director of Undergraduate Studies for the Economics Department at Harvard University, Jeff Miron is Director of Economic Studies at the Cato Institute.

He's also the narrator of this video from Learn Liberty that discusses three myths about capitalism.

Unsurprisingly, I think Jeff is right on the mark. Here are some of my thoughts on the three myths, but I'll take a different approach. I'll state the truth and then add my two cents to Jeff's debunking.

1. Capitalism is pro-consumer, not pro-business.

I think the myth about a link between capitalism and big business arises because defenders of free markets often are in the position of opposing taxes, regulations, and mandates that also are opposed by the business community. But for some reason, many people overlook the fact that those same advocates of free markets also oppose cronyist policies that are widely supported by big business, such as Export-Import Bank, the so-called stimulus, TARP, and Obamacare. Part of the problem may be that far too many Republicans actually are pro-business instead of pro-free market.

2. Capitalism rewards those who best serve others.

In a genuine free market, you can only become rich by providing goods and services that are valued by others. But I think the myth that capitalism leads to unfair distribution of wealth exists for two reasons. First, a non-trivial number of people actually think the economy is a fixed pie, so they assume a rich person's wealth came at the expense of the rest of us. This is obviously wrong. The second reason is that some people do get rich because of government intervention and coercion. This is true, of course, but as discussed in the video and in my remarks above, cronyism, handouts, bailouts, and subsidies are the opposite of capitalism.

3. Capitalism can't work without failure and bankruptcy.

Regarding the myth that capitalism caused the financial crisis, I've already explained that bad monetary policy and corrupt subsidies from Fannie Mae and Freddie Mac deserve the lion's share of the blame. So I want to focus on the bailouts that occurred once the economy soured.

There's a semi-famous saying that "capitalism without bankruptcy is like religion without hell." Unfortunately, politicians feel a compulsion to shield people (especially if they're politically powerful) from the consequences of bad decisions. That's not capitalism. And I'm not just making an ideological point. For those who think that the financial system needed to be recapitalized, the "FDIC resolution" approach would have achieved everything we got with TARP, but without rewarding people who made bad decisions.

My only complaint about the video is that it was too short and didn't address some of the other viewpoints that undermine support for capitalism.

I don't know if these are myths, per se, but they certainly are mental roadblocks we need to overcome to build more support for a free society.

4. Some people crave security.

Capitalism is all about opportunity, but that also means uncertainty. And for those who crave predictability and security, that makes them uncomfortable. And I suspect they would be uncomfortable even if you showed them all the evidence that capitalism leads to far more wealth in the long run. Simply stated, they worry about falling through the cracks. When trying to convince these people, I point to the collapsing welfare state in Europe and argue that there's far less long-run security in a society where everyone tries to live at the expense of everyone else.

5. Some rich people are jerks.

Whether it's being obnoxious or ostentatious, people with a lot of money sometimes give capitalism a bad name. And that's true even if they are genuine capitalists rather than cronyists. It doesn't help that a lot of what comes out of Hollywood routinely paints rich people and big business as bad guys. By the way, it could very well be the case that there are fewer bad people, per capita, among the rich when compared to the rest of us. But the ones that are jerks get a disproportionate share of attention. And since I mentioned Hollywood, it is a bit of a mystery that becoming uber-rich by acting (or singing or in sports) doesn't seem to arouse as much envy. Yet I strongly suspect those people are far more likely to engage in unseemly behavior. Go figure.

6. Some businesses try to rip off consumers.

While free markets in the long run reward honesty and punish bad behavior, that doesn't mean much to a person who has been ripped off, whether by a local contractor or a big multinational. The fact that there are bad people, though, isn't an argument against capitalism. After all, bad people are quite likely to obtain power in a big-government society. And backed by the coercive power of the state, they'll have much greater ability to do bad things.

P.S. If you want to know the practical difference between capitalism and socialism, check out this image.

P.P.S. The most free-market place in North America is not in the United States.

P.P.P.S. We live in a strange world when Bono is more pro-market than the Pope.

P.P.P.P.S. Statists like to criticize free markets, but they sure seem to enjoy the fruits of capitalism.

P.P.P.P.P.S. I also suspect statists think free markets are bad because they equate capitalism with rich people and the wealthy folks they know are more likely to have obtained their money dishonestly.

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