

CAPITALISM WITH A HUMAN FACE

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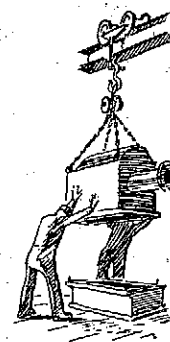
IN a paper called *Why We need a Social Market Economy** the Centre for Policy Studies enunciates its fundamental beliefs about the free market economy and the need to explain it to a confused British public. The Centre was set up under the auspices of Sir Keith Joseph and Mrs. Margaret Thatcher and can be expected to influence the formation of policy by the Conservative party, though it is tantalisingly suggested that the market economy is historically "neither a right-wing nor a left-wing concept" and can embrace many forms of ownership, including cooperatives. Like the Institute of Economic Affairs, the Centre does not preach only traditional *laissez-faire* but urges that capitalism be complemented with social policies - hence the description "social market economy."

Much of the content of this paper will be familiar to those who have some understanding of the principles of a market economy. The price mechanism is seen as a signal, a means of transmitting information to producers and consumers; the profit motive as the element that brings supply and demand into balance; and competition - the "enemy of complacency" - as the most effective stimulus to innovation, economy, and responsiveness to consumer demand. The market economy is regarded as more efficient than the alternative of administrative discretion in a "command economy" and, even more important, as embodying freedom of choice and the decentralization of economic decision making. The growth of the state's economic power is feared as a danger not only to the satisfaction of the consumer but also to the political liberties of the citizen: economic centralism and political totalitarianism have proved ready bedfellows in the Soviet Union and eastern Europe.

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While deploring the politicization of economic activities - one effect of which is that economic rewards can be gained by political clamour - the Centre shows little perception of the reasons why this has taken place. It attributes shortcomings to the market for not providing for the old and unfortunate and for perhaps bringing about an unacceptable distribution of wealth, and is willing to entertain a limited degree of redistribution to overcome these drawbacks. "We are not prepared", it declares, "to tolerate poverty and deprivation where, in the absence of government intervention, this would otherwise occur." However, it is precisely because poverty and deprivation were so widespread that government intervention has been so extensive. Failure to investigate the source of that poverty has bred the palliative of redistribution through high taxation and social welfare. To abandon or reduce this government intervention will produce the same hardship again unless the causes of poverty are first identified and removed.

The Centre sees a conflict between egalitarianism and complete capitalism, since the successful working of a market economy must endow some individuals with considerably more wealth and income than others. Where these rewards represent a reasonable return for a contribution to the common good, we need have no quarrel with them, but wealth and income arising from privilege are another matter. By the nineteenth century the gulf between rich and poor was enormous, far beyond any possible variation in contribution, and still widening, evidently the result not of individual initiative or providence but of a divisive wedge within the social structure. The rich grew richer, often with no effort or sacrifice whatever, and the poor grew poorer, however great their toil. This division,



seen as a natural consequence of capitalism, gave rise to class warfare, trades unions, and socialism. It may not be a natural consequence of capitalism, nor anything to do with capitalism, but rather a defect in social institutions. If so, this defect has never been corrected and therefore still exists, a hidden crack in the foundations which can bring the most august edifice tumbling down. Unless advocates of a market economy uncover this defect and put it right, their cause is hopeless. The Centre for Policy Studies should look closely and urgently at the distinction between land and wealth produced.

A less serious but nevertheless disappointing omission from the paper is any reference to non-governmental restrictions on competition. Too often it is capitalists themselves who diminish competition, by mergers and market domination or by demanding and obtaining subsidies, quotas, tariffs and other forms of "protection". In practice high profits are not always "a sure sign that a firm is pleasing its customers". The Centre accepts that "government involvement is necessary to create . . . a framework of law in which private enterprise can be truly competitive," and one hopes that it will enlarge on this.

The Centre will seek to counter the prevailing stream of anti-capitalist propaganda by publicizing the benefits of capitalism and so reawakening the instinctive sympathy of the British people for the market economy. It is assumed that in a healthy democracy people will wish to make their own decisions, and the Centre is obviously aware of the expanding pressures for them to do so, in many

different fields. Accordingly, one of the Centre's aims is the diffusion of economic power and it will try to encourage the wider spread of capital ownership, both to increase participation in the capitalist process and to strengthen the countervailing forces against the concentration of political power, with its inherent threat to political liberties.

For the reasons already mentioned, the arguments in this paper are, by themselves, inadequate. In it, as in most contemporary defences of capitalism, the evils that accompanied capitalism in the past are ignored or played down. Subject to that criticism, the approach

is excellent. It is robust, it relates economics to politics, it sees the need to put the message across, it expounds the advantages of the market while affirming that "a market economy is perfectly compatible with the promotion of a more compassionate society", and it recognizes the usefulness of dispersing private capital to help to achieve "the ultimate in participative societies". Not least, the paper is clearly and eloquently written, and if this standard is kept up we can look forward to some powerful and refreshing attacks on the many misconceptions that obscure the virtues of the market.