

John C. Médaille is a former businessman. After retirement he became an Adjunct Instructor in Theology at the University of Dallas. He teaches courses in Social Justice for Business Students

CAPITALISM, SOCIALISM, AND SOCIAL CAPITAL

CONTRARIES AND COMPLEMENTS

The political and economic debates of the last two centuries have, for the most part, come down to a contest between “capitalism” and “socialism,” with the former identified with “free markets” and the latter with “state planning.” As such, they are treated as “contraries,” that is, things that cannot exist together because one term negates the other. But there are grounds to doubt whether this is actually the case. Indeed, when we look at any actual economy, we never see either capitalism or socialism standing alone, but always “side-by-side.” This should lead us to suspect that they are not contraries at all, but rather *complements*, things which might appear to be opposites, but which are actually necessary for a complete description of something. For example, one cannot give a complete description of “humanity” without including a description of “man” and “woman.”

If capitalism and socialism are indeed complementary, then no description of any economy can be complete without accounting for both elements. This lack of a comprehensive description, one that includes both terms, is enough to explain the fact that we never see a purely “market” economy nor a purely socialized one; every actually existing economy includes both elements in varying proportions. Hence both terms are necessary to describe any actually existing economy. The problem then becomes one of determining just what the proportions of each element should be, that is, determining which goods should be “market” goods and which goods should be socialized. I suggest that the standard of judgment should always be, “which combination, in this particular set of circumstances, leads to an increase in social capital?” For, as we shall see, it is social capital which is the primary capital for all economic and political life.

But before we can deal with the question of social capital, we must give an accurate definition to both terms, capitalism and socialism, for the simple reason that the way these terms are used have become completely disconnected with what they actually are.

CAPITALISM

Capitalism appropriates the language of “free markets,” “limited government,” and “private property,” but in all actually existing capitalist economies we see a retreat of the free market and a vast expansion of government into every area of economic and social life. And even “private” property in capitalism is not what it claims to be. We need to look at each term in itself to understand how these strange contradictions come about.

FREE MARKETS

“Free markets” are characterized by vigorous competition in every sector of the economy; for every commodity or service, production is distributed among a large number of firms such that no firm has any market power, especially pricing power. That is to say, they are all *price takers*, accepting whatever price the market offers, rather than *price makers*, with enough power to set prices. Indeed, all free-market theorizing is rooted in this idea of competitive pricing, an idea which assumes a vast number of firms for each commodity. But when we look at actually existing capitalist economies, we see the opposite: production is concentrated in a few firms resulting in highly collectivized systems of production and distribution. In whatever market sector, from beer to banking, from energy to entertainment, we see vast cartels controlling the market, with most markets dominated by from two to four corporate collectives. Defenders of the system might respond that even two firms are enough for a market to be “competitive,” but this is naïve. The logic of maximum profits dictates that firms compete where they must but cooperate where they can. And in markets where there are few suppliers, acting as a cartel is far more profitable than price competition.

The inevitable result is what we actually see: Capitalism has always been the enemy of the free market and wherever capitalism advances, the free market retreats, as all production is gathered into vast corporate collectives.

LIMITED GOVERNMENT

If the “free market” claims of Capitalism turn out to be unsupportable, even more dubious is the claim to “limited government.” The indisputable historical fact is that the scope and power of governments has grown alongside the growth of the corporate collectives. In fully capitalistic economics, the government appears both more extensive and intensive than ever, fully rivaling communist governments in scope, scale, and power.

The reasons for this are not hard to discover. Prominent among these reasons is the fact that the *summum bonum* of capitalism is the increase in profits, and the easiest way to do that is to externalize the costs of production. But for that, you need a government with sufficient scale and taxing authority to bear all the externalized costs. Two examples will suffice, one from Great Britain and the other from the United States. In Britain the “Liberal” (that is, “libertarian”) party gained control in 1832. Despite its anti-government rhetoric, the power of the government actually

expanded faster than at any in English history, with the possible exception of the Norman Conquest. The new capitalist enterprises required a vast expansion of the physical infrastructure, a huge information gathering bureaucracy, and above all an expansion of the Royal Navy to support colonialism, the backbone of the new economy. Of course, the capitalists who benefited from this expansion did not bear the costs, which were placed on the general public.

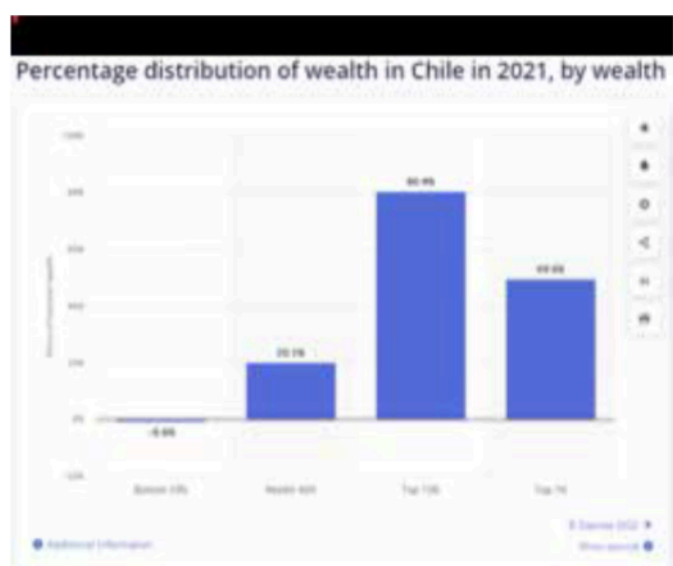
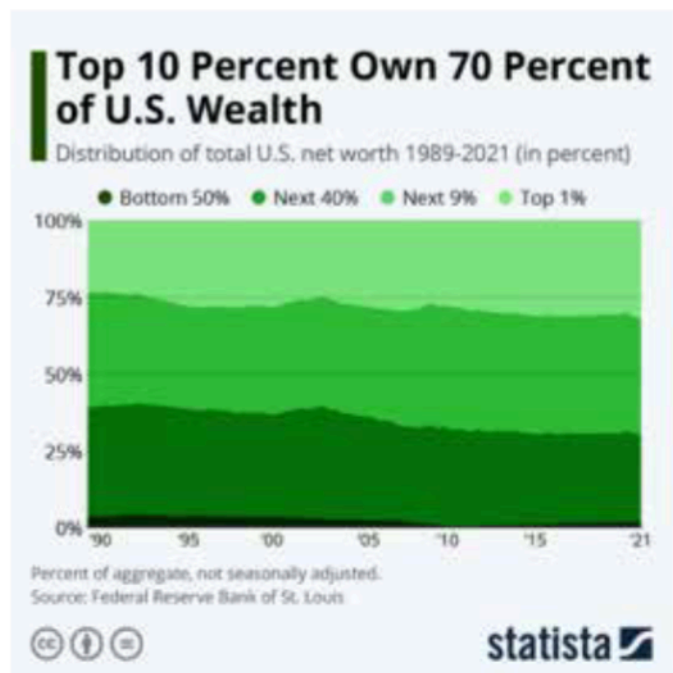
Much the same thing happened in the United States after the Civil War. At first the increased costs of this expansion could be borne by increases in tariffs, but the growth of government exceeded that source, so an income tax became a requirement by the early 20th century. One concrete (literally) example of this externalization of costs is the American “free”way system, which of course is anything but free. But the costs are not borne by the cost causers through weight and distance tolls, but by a combination of fuel taxes, and federal and state subsidies. And since most fuels are burned on city streets and rural roads rather than on the highways, these users subsidize the freeways, even when they don’t use them. And of course the biggest beneficiaries of these subsidies are those who make most use of the highways, namely the corporate producers and retailers, and the greater the distance between the place of the production of a good and the place of its consumption, the greater the subsidy. Indeed, without subsidies to the transportation system, including the highways, seaports, and airports, “globalization” as we know it simply could not exist.

The list of externalized costs could be expanded, but this much is clear: capitalism is not a free market system, but one whose very existence depends on big government and the opportunities for externalizing costs that big governments provide. Regardless of what capitalist theory states, this system of subsidies has *always* been the reality of actually existing capitalisms, and there are simply no counter-examples in the entire history of capitalism.

PRIVATE PROPERTY

Perhaps no issue arouses such passion as the issue private property, and for good reason. Property is proper to man, and indeed it is difficult to live without some property. But the question is whether property, although in some sense a natural right, has any natural limits. “Private” property has long been considered an *unlimited* right, such that each man can have as much as his wits can acquire, even to the extent that in theory, one man (or woman) could own it all. And herein lies the problem, since property is always about *physical* things, and physical things are also *finite* things, meaning that it is a zero-sum game: the more one owns, the less there is for others to own.

And this concentration of wealth under capitalism is a real problem. In the United States, the top one percent owns 32% of all wealth, while the top 10% owns 70%, leaving only scraps for the bottom 90%, and practically nothing for the bottom half of the population, which owns only 2.6%. These are the kinds of disparities that feed the anger of both the “Bernie Bros” and the “Trumpenproletariat.” The numbers in Chile are even more stark, with the top one percent of the population owning almost 50%, the top 10% owning 80%, while the bottom 50% shares a *negative* 0.6%.





And yet, for all of the passion poured in the arguments over private property, the plain fact of the matter is that it plays very little role in the economy. Most of the heights of the economy, the factories, banks, distribution chains, etc., are owned not by private individuals, but by corporate *collectives*. Of course, one might argue that since the collectives are “owned” by their shareholders, it is still private property. But I think this is an abuse of language. A person who owns a share in IBM does not ‘own’ the property of IBM in any meaningful sense: he cannot enter the property, he cannot sell it, or direct its usage. What he “owns” in owning a share is no more than the right to receive a share of whatever dividends the directors care to distribute, and a right—usually not exercised—to vote for the directors. But to say that he owns the property of IBM as a “private” property is simply false. That property is owned collectively and managed, like the property of all collectives, by a class of professional managers.

SOCIALISM

As we ended the discussion of capitalism with the collectivization of the economy, perhaps it best to start the discussion of socialism right there. For the form of socialism that most people fear, and fear rightly, is the one that leads to the collectivization of the economy, the form of socialism known as “communism.” But just as capitalism is not the free market, socialism is not the collectivized market; that would be communism. Communism promised the “ownership” of the collectives to the workers, but just as capitalism cannot deliver ownership to the shareholders, communism cannot deliver it to the workers.

Both systems end up with a collectivized economy, with a group anonymous “owners” (either “shareholders” or commissars) but with real control in the hands of a class of professional managers. Collectives, whether capitalist or communist, separate ownership from use and capital from labor.

But a proper “socialism” will unite these things. As Pope St. John Paul II put it:

Thus, merely converting the means of production into State property in the collectivist system is by no means equivalent to “socializing” that property. We can speak of socializing only when the subject character of society is ensured, that is to say, when on the basis of his work each person is fully entitled to consider himself a part-owner of the great workbench at which he is working with everyone else. (Laborem Exercans, 14)

The great problem then with communism is that it resembles nothing so much as capitalism. Or as Slavoj Žižek observed, “Communism failed because it was the ultimate capitalist fantasy”: Both systems end up with a collectivized economy operating under an expansive and intrusive state and an ever-narrowing space for private enterprise. And I believe that it is safe to say that capitalism will fail if it cannot reverse its slide into the complete collectivization of the economy and the social order.

MARKET GOODS AND SOCIALIZED GOODS

But just as capitalism is not really about “free markets,” socialism is not really about collectivized ones. Rather, it is the simple recognition that not all goods are market goods, and that some goods are of necessity socialized. At one level at least, no one

cover story

really doubts this. For example, when we call the fire department, we don't expect to have our credit cards handy; we expect this to be a service provided on demand and without cost. And at the same time, very few people think that all goods should be socialized in the way the fire service is.

Markets allocate goods on the basis of the ability to pay, and those who can't pay don't get the goods. And for most of the things we use most of the day, this is a perfectly just and adequate system. Who will get the better iPhone or the more fashionable clothing is a decision that we may safely leave to the market. And even basic commodities like food are generally market goods, since even the most exploitative employer must pay his workers subsistence or they simply won't, or rather can't, work, and hence we only need socialized systems for these commodities to the extent that people can't work, either because no work is available or because they are incapacitated.

But there are a large class of goods which are not and should never be purely market goods, reserved to those with the means to purchase them. Healthcare, for example, or education. To allocate either by the ability to pay is to condemn the bulk of society to disease and ignorance. Aside from any moral considerations, this can only result in a sick and ignorant society, incapable of competing in a modern economy.

The problem then is not to decide between socialism and markets, but to decide which goods need to be socialized and which are more properly left to the market; what is required is a standard of judgment upon which we can make this decision.

MARKETS ROOTED IN SOCIAL GOODS

If what has been said so far is correct, as I believe it to be, then it should be obvious that markets and socialism are not things opposed, not contraries, but things that depend on each other, complements. But we can go further to assert that *all* markets depend on some level of socialized goods.

For example, it really doesn't matter how good you are at making a product if there are no roads to take it to market; you will not be successful. If each entrepreneur had to drill his own well, dig his own latrine, educate his own workers and customers, provide his own police protection, ensure the safety of his food supply, or replace the dozens of other socialized services we depend upon, he would have no time to attend to his business. All business depends on vast and complex infrastructures being in place *before* one can invest in any purely market endeavor.

A strict libertarian might respond that competitive markets could provide all of these services, but this turns out to be an exercise in infinite regression: in order to establish a "private" police force, all the other services must already be in place. But for these services to be in place, there must be a police force. And further, even if these services could be privatized, they still would not be competitive market goods; they would merely be monopolies. "Competitive" police forces are normally called "gangs," and in



place of taxes they collect protection money. Nor could you have four or five competing sewer lines in the streets, nor competing highways along the same routes. So while the libertarian may be able to contribute some important things to the discussion of existing market order, he can say nothing about the origins of that order. The fundamental reality remains: Markets and socialism are complements; socialized goods depend on markets to be funded, but markets depend on socialized goods to exist at all.

SOCIAL CAPITAL

But all of the complex physical and bureaucratic infrastructures are themselves merely the physical signs of a far deeper and more fundamental “capital,” namely social capital. Social capital is that sense of community and sharing that binds us together into a common family. It is the values we share and the sense that we are all “in this together.” Without social capital, no community is possible and no problem, no matter how trivial, can be solved. But when the social capital is strong, no problem is too large. Hence, all economies must be evaluated not by the wealth they build for some, but by the sufficiency they provide for all.

The fact of the matter, and it is a fact we see every day, is that a society can be very rich but at the same time very dysfunctional. This is due in no small part to the fact in judging economic and political systems, we measure all the wrong things. If our wealth is increasing, but more and more people are self-medicating with drugs, alcohol, and sex, then the economy is failing no matter what the Gross Domestic Product (GDP) numbers tell us. It is precisely these social indicators that tell us the true state of our economic community. And we can confidently predict that sooner or later, the GDP numbers will fall with to the level of the social indicators.

This gives us the standard of judgment for deciding which goods should be market goods and which should be socialized. This is a judgment that will vary with particular circumstances. For example, in a society where the knowledge of medicine is basic and widely shared, it can likely be a market good. But in societies, like ours, where medicine is complex and its knowledge limited to a class of specialists, it must be a common good, if good health is to be maintained in individuals and good order within society.

Social capital is under attack today as our society becomes ever-more “individualistic” and as we relate more and more to our electronics and less and less to our neighbors, who have now become our competitors. And there are too many, too driven by the crude philosophy of capitalism, of profit-maximization as the only goal of economic activity, who are adept at using these new technologies against us, at using them to make more isolated, more hedonistic, more insecure, and more neurotic.

Everyone, or nearly, agrees that we must address this problem, but we cannot address it at all unless we first recognize that our first duty is to restore the social capital that ultimately binds us together.

To sum up, we can say that neither markets nor socialism can build either a just or even a functional order; both are required, and required in combinations that will depend on the particular circumstances of each society. But the judgment as to which combination is right for these particular circumstances will always be dependent on which combination best builds up our social capital. 