

# The Essence Of Capitalism

*Hart Buck*

ONE OF THE inescapable facts of human life is that we must choose among alternatives. That fact furnishes us the clue to economic science.

It is as simple as this : Two years ago, I wanted to hear a recital by Anna Russell and an address by Archduke Otto. But I had to choose between them because they were appearing in different parts of Toronto on the same evening and at no other time.

As you read this article, you yourself have made a choice among alternative uses of your time. You could have turned to television or picked up a novel. Instead, you chose to read what I have to say about capitalism.

THE BASIC idea of capitalism is that if we are left free to choose what we want most, we'll get the most of what we want. That is all there is to it. Any alternative whatever to capitalism can only be a system in which the police may compel us to take B when we would prefer A.

It is quite true that capitalism is an economy of scarcity. Under

that name in the 1930's, its critics contrasted it with the economy of abundance which would arrive when capitalism no longer blocked the track. But this side of Utopia or Paradise, there is no economy of abundance. If there were abundance, there would be no need for economy. There is indeed abundance of air for us to breathe, and therefore no need to economize air. But practically everything else we want is in short supply ; practically everything we want is such that we must work to get it and wait to get it, simply because we happen to want the kind of things that don't occur naturally, or don't occur naturally in sufficient quantity to satisfy all of us. There are not enough hands in the world to work, and not enough time to wait, to bring into existence all of the things that two and a half billion human beings want. Any economic system, therefore, is an economy of scarcity. The purpose of any economic system is to enable us to work and wait for the things we most want if we have to choose, and hence to overcome scarcity. Capitalism is the economy of minimum

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scarcity because its basic principle is to leave everybody free to choose.

**G**IVEN FREEDOM to choose between alternatives as the single basic premise, all the institutions and gadgets of capitalism are then free to grow out of it all by themselves. Human beings, free to choose what things they will work and wait for, will spontaneously invent not only physical apparatus but also institutional conveniences, whereby working and waiting will pay off in more and more wants met and appetites satisfied. It is, of course, the exceptional people who will invent apparatuses and institutions for the rest of us to use; such a thing as a wheelbarrow looks obvious enough now that we have grown up all our lives accustomed to the sight of it, but it took Leonardo da Vinci to invent wheelbarrows. Even he stood, as it were, on the shoulders of the forgotten greater genius who invented wheels. Forgotten, likewise, are the names of the geniuses who invented money and banking and investment and corporate enterprise; very likely these devices were invented over and over again whenever the time was right for devising them; and indeed we saw money being re-invented out of cigarettes by our boys in Europe last decade. But even the inventors of these refinements stood on the shoulders of

whoever it was that invented trade and the division of labor; and the low man on the totem pole of economic history, on whose shoulders alone these geniuses could firmly stand, must have been the one to whom it first occurred to simplify and amplify his labor by inventing the first primitive tools and equipment.

This hero of the productive process was in fact the inventor of capital and presumably the first capitalist. Perhaps he spent all of one day fashioning a knife of sorts out of a piece of flint; with the result that whenever he bagged a bear with a stone, he could accomplish the job of skinning it in one day instead of two. Or possibly he spent a week hollowing out a rough canoe from a rotten tree trunk with hot embers, so that he could go offshore and catch fish instead of lying on the bank; with the result that one day's fishing would yield what used to take eight days. From all this it would have been only the shortest of steps to a situation where our hero would spend all his time fabricating flint knives or tree-trunk canoes in return for bearskins and boatloads of fish.

Always assuming that human beings are left free and uncoerced in their choice between A and B, they will decide for themselves how much of A is to exchange for how much of B, and how much of either

of them is to exchange for how much of C. The more use they make of the market, the more speedily will they determine at what rate A will exchange for B and C and so on.

**E**VERYTHING THAT human beings may want — an hour's use of a uranium-miner's time, a month's use of a house, a year's use of a potato patch, the use of an automobile until it falls apart — goes on the market in exchange for everything else. In accordance with what they find market rates of exchange to be, human beings will revamp their own private schedules of priorities, whereby they rank the things they want in the order in which they want them.

Freedom works — or rather flourishes, and sprouts — whenever it is given half a chance. On a free market, ratios of exchange between marketable things — in other words, prices — find their own level, like water under the universal law of gravitation. What provides the sunshine in which market institutions flourish, and what supplies the universal law that levels prices, is nothing less than the imaginative enterprise of the businessman. He noses out, before others do, situations in which his fellow men are deprived of some convenience, some want, for which they would not be too sorry to ex-

change other things, and in which he could take some of these other things in exchange for the missing commodity if it could be supplied. In other words, he discovers a new way to satisfy a public demand by bringing existing resources together without wasting them. In fact he makes these resources more valuable than they were before; and the additional value is his profit. But in the very course of making his profit, our businessman is adding to the supply of his new product; and thus driving its price down and down on the free market, by way of inducing people to take more and more of it. He is also adding to the demand for things that go into the product, and thus pulling their prices up and up, by way of inducing people to give more and more of them.

**I**MPELLED by the market freedom of the human beings concerned, including that of the businessman to seek profit, prices find their own level, and costs and revenues converge. Indeed they execute a pincer movement on our enterprising businessman's profits, and sooner or later will squeeze them to zero. If he is wise, and has a chance to do it, he will use his profits to buy more capital equipment; for all he will get when the bloom of novelty is off his product, will be interest for his capital and wages for his

time, at no more than prevailing rates on the market.

THE MORAL of all this is that if we simply trust to human freedom as it exhibits itself in the market economy, we shall find that all will be as well as we can expect human affairs to be. As we have just seen, the market smooths away profits in a manner that ought to delight any critic of profits. We have also noticed that the quest for profit itself, driving prices to find their own level, actually drives up costs while driving down product prices ; and since essentially all costs are either costs of waiting or costs of working, it follows that on the free market, wage levels tend to increase. It used to be thought that wage levels necessarily stayed at the minimum for subsistence ; but as production and prosperity grew, the thinkers had to keep redefining subsistence. Much play was made with a casual remark of that first philosopher of the free market, Professor Adam Smith, to the effect that businessmen's conversation at any party always got around to the question of keeping wage levels down. Perhaps it does, but Adam Smith didn't say that the question ever got answered. The only answer could be to gang up and hold wage levels down. But on a free market, you can't count on any gang to hold together. The

most enterprising member of the gang may desert the others ; or else some other enterprising businessman will pop up out of nowhere, and in his own quest for profit will offer more than the gang does. On the free market, you can count on competition to break up any combine before any government commission has a chance to get it investigated. If you investigate it closely enough, you are sure to find some obstacle to market freedom. You are very likely to find that the obstacle was put there by the law itself.

People who have scruples about the free market prevail on their legislators and rulers to play God on their behalf, because they do not trust to human freedom to serve them right. I shan't attempt to detail the ways in which we urge our governments to play Providence, since we are more or less familiar with them all and are inclined to regard most of them as regrettable ; except of course, in such exceptional cases as may promise direct benefit to ourselves. It is, of course, literally only a case of playing Providence, since through the curtailment of market freedom all of us pay for such play-acting on the part of governments.

ONE IS tempted to recall here the campus wisecracks of the 1930's about godless capitalism. Advocates

of capitalism might almost admit that their system is just as godless as mechanical engineering or the differential calculus; since, like these, it is only a method of attacking a series of problems, in this case the problems of human penury and want. However, if anyone seeks to be reassured, let him take comfort in the thought that the method of capitalism is firmly based on human freedom to choose, which is the very attribute that many regard as the divine spark itself.

The bulk, therefore, of the criticism which for many decades has been leveled by all sorts of observers against capitalism and the free market, could perhaps be more pertinently aimed at its foundation of human freedom, or rather at the propensity of all of us to misuse this freedom which some of us nevertheless regard as a divine gift. For example, we hear that capitalism glorifies human selfishness. It seems to me more to the point to say that whereas human beings indeed are selfish, capitalism provides the maximum opportunity for the individual selfishness of human beings to cancel one another out. We hear that businessmen are avaricious and rapacious types, intent always to drive the closest possible bargain; but in this we may ask whether they are fundamentally different from their bosses the consumers, unless it is

merely that they are more enterprising. Then too we are told that businessmen exploit the ignorance of the consuming public, which may simply mean that the consuming public — in its lack of zeal for informing itself — leaves itself open to be exploited. Again, we come across complaints that enterprising businessmen capitalize on people's lack of taste: for example, that they make millions out of be-bop where the complaining critics, if they had the power, would benevolently surfeit the public with Bach. But surely any enterprising businessman who could sell us Bach would be equally free to make millions out of Bach; meantime, those of us who want Bach instead of be-bop can get him.

WE MAY hear capitalism condemned on the ground that it is insecure; that it leads to dismaying booms and busts, overtime and unemployment, gluts and dearths, ups and downs in price, and demand and supply generally. One is entitled to wonder whether these are results of market freedom or of governmental attempts to interfere with it. I myself am inclined to guess, though it would be hard to prove, that on a fully free and competitive market, most changes would be gradual and gentle. I suspect that not violent ups and downs, but a steady crescendo in the supply of

real goods for everybody belongs to the nature of capitalism.

AND NOW, what of its name? Certainly a more comprehensive and accurate name for the economic order we have been considering, is that of the free market. Among its more vocal advocates on this continent, there is much vogue for the name of "free enterprise." But this tells only part of the story, though an important part, namely, that anybody is free to become a businessman and engage in enterprise, not only in theory but in actual fact. It is not true that capitalism and the free market are on the side of the rich and powerful. They, if anything, are more apt to favor some distortion of the free market which may safeguard their riches and power from competition. In this century which the Common Man — whoever he may be — has had held up to him as his very own, he first of all should stand ready

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to defend capitalism as a system made to order for him. Above all, it promises him freedom to transform himself, if he can, into something else less common. The less fortunate under capitalism would do well to respect the system that has made others prosperous in their service, the system that justifies Abraham Lincoln's remark that where one man is rich today it only means that the next man may become rich tomorrow.

THREE YEARS ago, during a discussion of the price of a steelworker's time, such as is natural in connection with any price on any free market, President Fairless of U. S. Steel reminded that company's production men that a system existed whereby, at no greater cost than that of a medium priced automobile, they could among them buy the company out and control it for themselves. That system, he pointed out, is capitalism.

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## Is Labor A Commodity?

The laborer is not a commodity, but the service he renders cannot escape economic law. That means quite simply that if the service is made artificially costly, then just like anything else, customers will buy less of it than otherwise. Labor, like anything else, can price itself out of its market, if given monopoly status.

BRADFORD B. SMITH, "Controlled vs. Uncontrolled Economy"

# Principles Are Inflexible

*Herbert Spencer*

MAKE A HOLE through a principle to admit a solitary exception, and, on one pretence or other, exceptions will by and by be thrust through after it, as to render the principle utterly good for nothing. In fact, if its consequences are closely traced, this same plea for license in special cases turns out to be the source of nearly all the evils that afflict us. . . .

When Philip of Valois swore the officers of his mint to conceal the debasement of the coinage, and to endeavour to make the merchants believe that the gold and silver pieces were of full value, he thought that although perhaps unprincipled, such a measure would be vastly profitable. And so no doubt believed the other kings, who, in the "good old times," almost universally did the like. They overreached themselves, however, as all such schemers do. It is true that their debts were diminished "in proportion to the reduction in the value of the currency; but their revenues were at the same time reduced in the like ratio. Moreover, the loss of their reputation for honesty made them afterwards un-

able to borrow money, except at proportionately high rates of interest, to cover the risk ran by the lender." So that they not only lost on the creditor side of their accounts what they gained on the debtor side, but put themselves at a great disadvantage for the future. . . .

Protected trades, too, have afforded many proofs of the impolicy of injustice. . . . Under the now happily exploded plea of protection to native industry, the silk manufacturers were freed from all foreign competition. Their prices were thus artificially raised, and all the nation was compelled to buy of them. And so, having a large market and profits, they thought their prosperity ensured. They were doomed to disappointment, however. Instead of a brisk and extensive trade, they obtained a languishing and confined one; and that branch of manufacture, which was to have been a pattern of commercial greatness, became a byword for whining poverty. How utterly absurd, under such a lamentable state of things, must have appeared the proposal to return to-

Extracted from *Social Statics*. New York: D. Appleton and Company, 1865.