The
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The Case for Legalizing Capitalism

Kel Kelly

Kel Kelly has spent over 13 years as a Wall Street trader, a corporate finance analyst, and a research director for a Fortune 500 management consulting firm. Results of his financial analyses have been presented on CNBC Europe, and the online editions of CNN, Forbes, BusinessWeek, *and the* Wall Street Journal *(agorastiki@gmail.com).*

It is a common assumption in today's world that capitalism is, at best, out of control and, at worst, outright evil. Everyone knows that it causes most of our financial, economic, and social problems, and that we need a referee—the government—to make sure that all is fair and that we innocent citizens are not taken advantage of by predatory companies and capitalists.

The fact, of course, is that *everyone* is wrong.

My urgent goal in writing *The Case for Legalizing Capitalism* (Mises Institute, 2010) was to create a one-stop refutation of all anti-capitalist arguments, using plain economic logic and applying free-market (i.e., classical liberal) arguments and economic laws to today's political scene, across the entire political-economic spectrum. In short, the goal was to condense the world of the Mises Institute into one book.

During my study of free-market economics over the years, it occurred to me that this fascinating, economically sound reasoning for how the world really works and what would genuinely help our lives was widely discussed in the pro-capitalism, academic-type world, but that the general public was wholly unaware of these astounding insights.

I wanted to explain free markets in plain English to average citizens, so that they could understand which government policies help or harm them, and, as a consequence, so that they could vote in such a way as to improve their lives.

My main message is that most of our economic problems derive from previous government intervention in the economy. In its attempts to "help" us, the government has managed and regulated the economy, and passed laws that sounded constructive but that in fact hurt the economy and us.

Political economic reality is replete with the law of unintended consequences. Our economic problems are the natural result of political forces, not the natural result of (supposedly evil) market forces. We have voted our current problems into existence by electing politicians who promised to help us by means of economic intervention and regulation.

As Austrians know, most people believe we have free markets, but we have no such thing. This is true regardless of the fact that politicians of all stripes—and most of the media—claim that we do. The government has its hand in every company and every industry in the nation, controlling what things are produced and by which means. Indeed, it even manipulates market prices and production directly.

Left-wing pundits ridicule those who label such government manipulation and control "socialism," but it is in fact just that. Socialism involves government control of the means of production, and its real purpose is redistributing property for the benefits of "society" (society being receivers, not givers). Controlling production and redistributing wealth are precisely the goals and justifications of our government's constant intervention in the economy.

But this constant "helping" through attempting to "manage" has resulted in a constant decline in our ability to produce real wealth and thereby to improve our standards of living. As it is now, we are seeing a consistent increase in the wealth of the rich, a moderate improvement in the wealth of the middle class, and stagnation in the living standards of the poor. As has happened to other countries at various points in history, we are now on the verge of retrogressing economically.

Consider this remarkable irony: most citizens put their faith in government—the entity that steals from us, causes wars, imprisons and starves innocent citizens, and is an absolute monopoly—to provide for us and keep us safe.

At the same time, they see businesses—which have eradicated diseases and starvation, engaged in peaceful exchanges instead of war, produced virtually everything we currently own and enjoy, paid us our wages and provided capital for us to improve our productivity, all the while being fully restrained by hungry competitors (in free markets)—as our enemies from whom we need protection. These commonly held but irrational prejudices for government and against businesses form the very foundation of the political arguments espoused by professional anti-capitalist "thinkers."

And yet, when capitalism has been allowed to flourish to even a moderate degree, it has succeeded in improving the lives of all involved—rich, poor, black, white, man, or woman. Only capitalism, with its true free markets and true freedom for individuals can solve our economic problems and bring prosperity.

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"Capitalism" is neither the Right-wing, crony-capitalism corporate-welfare economy, nor the anti-rich, wealth-redistribution social-welfare economy that we have today. In a truly capitalist society businesses never receive money or special privileges from government: they succeed if they please consumers in offering them what they want, and they fail if they do not. By the same token, in a truly capitalist society, individuals never receive special privileges or transfer payments. Instead, they have an abundance of jobs and of wages commensurate with the value of their work (more than a "living wage").

Real economics (i.e., free-market economics) proves that under capitalism, it is virtually impossible for things like inflation, shortages, booms and busts, recessions, unemployment, starvation, and unaffordable healthcare to exist. Competition and the threat of competition serve as iron-clad shackles on companies. On the one hand, it prevents them from underpaying, overcharging, or undersupplying. On the other hand, it assures that they guarantee the safest, lowest-priced, highest-quality products that can possibly be produced at any particular state of technology and development.

The Case for Legalizing Capitalism begins with economic basics, explaining labor, production, exchange, savings, trade, and economic progression. In the process, many common anti-capitalist arguments are disproven—that labor is exploited, that some involuntary unemployment is "natural," that outsourcing is harmful, that we should "buy American," that we need "energy independence," that sweatshops and child labor should be extinguished, that there is an economic threat from China, and that jobs or companies should be protected.

In the second section, having laid out a solid explanation of how free markets work, I analyze how government has interfered in the marketplace and caused the very problems for which the free market is commonly blamed. Banking and the business cycle are given a thorough examination so as to demonstrate that our government-sponsored banking system is artificial, unnecessary, and the sole source of our economic crises and recessions.

I explain why our most screwed-up industries—including healthcare, airlines, and oil—function so ineffectively, and why regulations such as price controls, government-granted monopolies, the restriction of production, and the prevention of business competition and of free exchange between enterprises and consumers only harm consumers (i.e., all of us), while benefiting select government-favored companies.

In the third section I compare the historical results of government management versus free markets. I look at several "case studies" of relatively free markets that were ruined by government manipulation and control, including the Great Depression, the fall of the Roman Empire, and the transition of various countries to communism.

Then, through comparisons of free versus unfree countries from an empirical and statistical viewpoint, I show the direct correlation between free markets and higher standards of living. Also in this section, I examine the concept of the evil corporation in order to reveal that corporations—unless given the power by government to do so—can not only *not* harm us but can only benefit us.

In the fourth section I take a deep dive into several special topics: morality, war, and environmentalism. A core tenet of leftists' promotion of socialism is that it is *moral*, while capitalism is immoral. Not only do I show this is completely opposite from the truth, but I reveal that socialists are hypocritical, dishonest, thieving, and harm those they are supposedly trying to help (usually themselves). In a large subsection, I address the causes of and solutions to poverty in detail.

The notions that most wars are needed, that they keep us safe, and that they are justified, are, through historical examples, carefully disproven. In addition to providing a strong case for secession of individual groups or geographical areas from their current national rulers, I also develop original arguments advocating antipatriotism and the intentional dismantling of individual countries, including our own.

Finally, due to popular "green" sentiments that threaten to halt or reverse our economic progression, I lay out the case that, first, the environment is in better shape than we think (and improving!), and that, second, whether global warming is real or not, we will be better off through increasing, not decreasing, carbon emissions.

In the final section of the book I put together all the knowledge obtained thus far so as to enable the reader to assess our current social and economic policies as well as the current misguided world view of anticapitalism. I refute Keynesianism's basic and most important arguments—including the idea that GDP is a relevant economic indicator—showing that the world works in opposite fashion to what most recognized economists today argue. Finally, I explain popular news headlines/stories in terms of their real political and economic significance—insights that are usually obscured due to a lack of economic knowledge on the part of both writers and readers.

Major running themes in the book include such notions as: Regulation does not usually protect consumers, but merely benefits one group at the expense of another; Redistributing wealth cannot possibly benefit the receivers in the longer term, but only hurt them; Politicians cannot help us economically, they have no idea what they are doing, and they don't care anyway, since their goal is simply to buy votes by selling the property of others.

Most importantly, I argue that if we citizens better understood real economic cause and effect, we would not only have the power to demand beneficial policies from our politicians, but, because they will give us whatever we want if we put them in power, we could actually compel them to allow freedom and thereby improve the lives of everyone.

I hope that you enjoy the book, that it brings some true "enlightenment," and that it serves in some degree to help turn the tide against the destructive anti-human-progress thinking so prevalent in today's world. FM

A Defense of the Rich

Llewellyn H. Rockwell, Jr.

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Maybe you saw the headlines blasting the rich (again!) for failing to spend money in order to enable us to get out of this ever-lasting recession. It turns out that in boom times, the rich spent $145 per day. Now they are only spending $119. So, there we go: a new scapegoat! Those greedy rich people are failing to do their duty.

The press reports that the rich are not booking at the Four Seasons, not putting on the Ritz, and not filling their closets with furs and jewels from Saks. It gets worse. The women who shop for goodies by Dries van Noten and John Galliano told the *New York Times* that their husbands are telling them to cool it on designer bags, shoes, and dresses. Yet another reason for the recession: patriarchy! Let those tax cuts expire!

But, still, I'm not entirely sure I can follow this. In normal times, we are told that the rich are rich only at the expense of everyone else. One man's wealth is another man's poverty. It's a fixed pie, and one reason for human suffering is precisely the tendency of the rich to spend their filthy lucre on fripperies. They engage in conspicuous consumption that does nothing but feed their egos even as the world's poor suffer.

Suddenly, the line has changed. Now it is the moral obligation of the rich to cough up in order to help the rest of us. Especially now that government stimulus has proven to be ineffective, the rich should make it their patriotic obligation to spend, spend, spend! To be sure, the left-leaning commentariat is not willing to go so far as to favor tax cuts for the rich. For that would put us "in an Alice in Wonderland world," says Sam Pizzigati of the Institute for Policy Studies, in which we help the people we are supposed to hate.

I'm just trying to come to terms with the intellectual model here. On the one hand, the rich are usually blamed for poverty simply because they have money while others do not. On the other hand, their failure to behave like rich people is also to blame for economic hard times. It's like this swath of the population can't do anything right.

Now, under crude Keynesian thinking, one can sort of make sense of this. The idea is that a rich person buys a yacht and that provides jobs for yacht salesmen, boat makers, wood finishers, boat repairmen, paint makers, and everyone else involved in making and maintaining the yachting world. These people get money and in turn spend it on clothes, booze, movies, and other things along those lines. This is the circular flow of perpetual economic motion that keeps the world afloat; any saving then becomes a "paradox" because it delays recovery.

The trouble is that spending is not the cause of economic growth. Investment, which begins in saving, is the root of economic growth. It doesn't matter that consumption makes up a certain percentage of economic activity. That's only the surface you are looking at. Spending and consumption without saving and investment is a prescription for devouring the prospects for prosperity down the line. In this case, the best thing that the rich can do for a future of economic growth is not to spend but to save toward investment.

The circular-flow model that sees spending as the fuel of economic activity fails to account for saving and investment, which come about only through deferred consumption. The view that economies grow through consumption leaves out the real drama behind the scenes. As Robert Murphy explains, "The finished goods you buy at the store are made of components that passed through probably thousands of different hands, in dozens of countries, before all coming together into the item you throw in your grocery cart."

The core problem with the economic boom is precisely that it led to wealth-consuming activities that secretly ate away the core productivity of the economic structure. What needs to happen is a retrenchment, a new pattern of saving and deferred consumption.

And why would people save? In order to spend later, once the foundations of future prosperity are rebuilt. But this takes time (another feature of reality left out of circular flow). The best approach the government can take is to back off, let people keep what they earn, and permit the economy to rebuild on its own.

In other words, tax cuts for the rich would in fact help get us out of recession. But there is no reason to limit these cuts to the rich. There should be tax cuts for everyone. And that has to go along with massive cuts in government spending too, so that we stop running debts that have to be paid later with inflated dollars.

In other words, stimulus and browbeating the rich to spend more are going to have exactly the opposite effect. They will delay recovery. In fact, the current political environment is following the script of the Great Depression in delaying prosperity year after year through terrible political ideas and policies.

The rich can indeed help us all, not by spending but by being thrifty and even miserly for as long as necessary to fix what the government has broken. FM

News from the Institute

Mises University

This year's Mises University was a smashing success in every way. We had students from all over the world with us to learn economic theory and policy, with dawn-to-dusk classes and seminars. The reviews by the students were 100 percent positive. Out of this generation are going to come some great thinkers and writers in the years ahead. This was the twentieth year for this program that has educated nearly all the Austrian School economists working in academia today, not just in economics departments but in history, literature, philosophy, and law. Please know of our gratitude to all our Members who have made this possible. It has been a fantastic investment in the future of freedom. FM

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AT THE MISES INSTITUTE

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- SUPPORTERS SUMMIT AND SCHLARBAUM AWARD TO JIM ROGERS
  October 8–9 • Mises Institute
- THE MISES CIRCLE AT FURMAN UNIVERSITY
  November 13 • Greenville, South Carolina • Sponsored by Atlantic Bullion & Coin, Professional Planning of Easley, LLC, and Furman University Conservative Students for a Better Tomorrow
- ECONOMICS FOR THE YOUNG STUDENT — SEMINAR FOR HIGH-SCHOOL STUDENTS
  November 19 • Mises Institute • Sponsored by Anastasia Thiele
- ECONOMICS IN ONE LESSON — SEMINAR FOR HIGH-SCHOOL STUDENTS
  January 21, 2011 • Houston Hilton Post Oak • Sponsored by Jeremy S. Davis
- THE MISES CIRCLE IN HOUSTON
  January 22, 2011 • Houston Hilton Post Oak • Sponsored by Jeremy S. Davis
- THE MISES CIRCLE IN NAPLES, FLORIDA
  February 26, 2011 • Naples Beach Hotel • Sponsored by Anonymous Donor, Avery Knapp, and Stephen Hillis
- AUSTRIAN SCHOLARS CONFERENCE
  March 10–12, 2011 • Mises Institute
- THE MISES CIRCLE IN CHICAGO
  April 9, 2011 • Chicago, Illinois • Sponsored by Dr. Don Stacy
- ROTHBARD GRADUATE SEMINAR
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See inside for details.