

13 Arguments for Liberal Capitalism in 13 Minutes

Stephen R.C. Hicks

Argument 1: *Liberal capitalism increases freedom.*

First, defining our terms.

By “Liberalism,” we mean a network of principles that are institutionalized. Political scientists will talk about them systematically. Among them is the *Rule of Law*, so that there are explicitly specified principles governing the society—as opposed to arbitrary power residing in one individual or any number of individuals who can make up the rules as they go along. Typically, the principles will be spelled out in a *Constitution*. For example, there will be *Democratic* and *Republican* institutions to assign powers, to separate those powers, and sometimes to put them in tension with each other. There will be explicit protection of individuals’ *Rights* to life, liberty, property, the pursuit of happiness, and so on.

Let us take all of that and put it in a box, so to speak, and call it “Liberalism” or, more broadly speaking, “Liberal Capitalism.”

Now, what is good about *that* set of political institutions?

The first argument is that that set of institutions dramatically increases the amount of *freedom* that individuals enjoy relative to any other kind of society that can be designed: socialism, fascism, authoritarianism, tribalism, and so on. Under the liberal capitalist set of institutions, individuals enjoy more freedom than any other kind of system.

Most of us like the exercise of freedom: we like to do things our own way, to formulate our own tastes, to dream our dreams and be able to put them into practice.

But liberal capitalist will also argue that freedom is not only something we happen to like—that there is a deep *need* within human nature to be who we are, and to be able to live as free individuals.

So a society that protects and augments the amount of freedom that individuals are able to enjoy is, by that criterion alone, a good society. Human beings are not slaves, and they are not servants. Rather, they are each by nature free individuals, and one proper purpose of society is to protect their freedom.

Argument 2: *People work harder in liberal capitalist systems.*

Next, suppose that we have a liberal society, in which property rights, liberty and so forth are protected. We then will have a dramatic increase in the amount of individual freedom.

Economists argue that individual’s *incentives to work hard* will change under that system, compared to other institutions. If I am in a system in which I am able to do what I want, make a living the way that I want to, and I know that if I work hard I am going to keep the fruits of my labor—then individuals in that society will work hard. They will produce a whole lot more economic value. As a result, that society will be more prosperous economically.

Compare capitalism to other institutions. Under *tribalism*, where I am working for the good of the tribe, I have some incentive, of course, to work for the good of the tribe. Or under

feudalism, where I am mostly working for the aristocrats. Or under *socialism*, where I am working for the good of the whole of society. In some way, I may have an incentive to work hard to the extent that I value those institutions.

But to the extent that I am able to work for myself and keep the fruits of my own labor, I will work harder, and that society will become economically more prosperous.

Argument 3: *People work smarter under liberal capitalism.*

Next, a complementary argument: Under capitalism, people work *smarter*.

Not only do people work harder, but they work smarter. Capitalism makes better use of the knowledge that is available in a society but dispersed among millions of individuals. Capitalism develops institutions that enable individuals to coordinate their knowledge in a way better than in any other society.

Contrast a monarchy, for example. Suppose we have a king trying to organize and run a whole economy. The king might work very hard, and he might be very smart, for a king. But, nonetheless, there is a limit to how much one person can know, and he can necessarily only make very crude, top-down decisions in a centralized fashion.

Or we might have a socialist planning board, as another example. We might have 20 or 30 well-meaning, intelligent individuals. Nonetheless, there is a limit to how much 20 or 30 people can know and to the quality of the decisions they can make for society as a whole.

By contrast, capitalism is characterized by decentralized decision making. Everybody is free to make their own decisions in their own life. Also, they know their own circumstances best; they know their own needs best; and they are able then to work out relationships with other people that bring to bear the knowledge of what is necessary for the particular circumstance in a better way than any other kind of system.

If we scale that up to the supply and demand system and the price system in general, under liberal capitalism we are able impersonally to coordinate the knowledge of vast millions of people around the world and in a much more efficient manner than any other system.

So, capitalist systems work smarter and, as a result of working smarter, they will become more prosperous.

Argument 4: *Liberalism increases individuality and creativity.*

Another complementary argument. In a liberal capitalist system, people are more free to live their lives as they want. So what we will have in that society is an increasingly amount of *individuality*—that is, a greater number of people who do their own thing, their own way. They are free to live their lives as they want, think the thoughts that they want, experiment however they want.

The argument here is that capitalist societies, then, are going to be much more *creative* societies, because they encourage and cultivate individuality. As a result of that increased creativity, there will be much more *innovation* in capitalist societies compared to other kinds of societies.

Other kinds of societies—if they prize everybody doing the same thing in the same way, or if they prize everybody following orders—are not going to encourage the creativity and innovation that goes on in capitalist societies.

This argument concludes that, as a result of that creativity and innovation, we will have more economic prosperity under liberal capitalism.

So: Liberal capitalist institutions—by increasing the amount of freedom that people have in that society—mean that people will work *harder*, they will work *smarter*, and they will work more *creatively*. And that is why those societies produce a whole lot more wealth than any other kind of society.

Argument 5: Liberal capitalism increases the average standard of living.

The next argument focuses not so much on capitalism's productive ability or how much wealth it creates—but rather on the *distribution* of wealth in a society. One characteristic of capitalism in the modern world, after the Industrial Revolution particularly, was the development of mass production of goods, obviously for the masses. Mass-produced clothing, mass-produced houses, mass-produced cars, mass-produced televisions, food, and so forth. Those are all things that dramatically increased the *average* standard of living.

So, if your measure of a good society is increasing the average standard of living or increasing the standard of living enjoyed by the majority of people in the society, capitalism performs better than any other society.

Compare the more free-market societies with monarchies, with socialist societies, with fascist societies, with tribal societies, and so forth. All of them have demonstrably a much lower standard of living, and the majority of people live less well than under capitalist societies.

Argument 6: The poor are better off under liberal capitalism.

Next, rather than focusing on the people in the middle, or the average, or the majority of people in a society—we might focus on the *poorest* people in society and consider capitalism's effects on them.

The argument here is that capitalism, by producing a great deal of wealth, means that a significant amount of that wealth will be reinvested, and that reinvestment will create a whole lot more jobs. And those jobs will be better paid as a result of the increase of overall standard of living in that society.

So, you would rather be poor in a capitalist society than be poor in almost any other kind of society.

The argument is that, with capitalism, as a poor person you will have the freedom to become entrepreneurial to try to improve your condition—and you will also be in a society that overall has a whole lot more prosperity, so there will be a lot more job opportunities for you as a poor person. So, capitalism improves the lot of poorest people.

This argument can be borne out historically by looking at the number of people living under poverty line. If you keep the poverty line consistent, the vast majority of people who lived in

poverty were lifted out of poverty as capitalism developed, until poverty in the advanced capitalist societies became a relatively minor issue.

Argument 7: *Liberal capitalism generates more philanthropy.*

Another, related argument focuses on the non-profit sector in capitalist societies. Given that capitalist societies produce so much wealth—a lot of that wealth, of course, is spent directly on consumer goods, and a lot of that wealth is reinvested as capital in new productive enterprises.

But a lot of that wealth will be given to non-profit organizations. The argument then is that capitalism has a more robust and healthy civil society compared to any other kind of society. There will be money donated to hospitals that will operate on a non-profit basis—to relief organizations—to research institutions that are devoted to studying cures for new diseases.

There will be money given to provide relief for people who cannot work, to people who might poor and who can't get a job and so need to survive by the charity of other people. There will be more charity available in prosperous capitalist societies, and those people then will be better off.

The argument here is that, if you're going to be a sick person who has no resources, or if you're a handicapped person who is not able to support himself or herself—then you want to be in a capitalist society because that is going to most increase your chances of getting the resources and the help that you need to deal with your very difficult situation.

Argument 8: *More outstanding individuals flourish under liberal capitalism.*

Another complementary argument in this area of *distribution*.

Rather than focusing on the average person, or the poor person, or the person who is so weak and handicapped that he or she can't support himself—we might consider the effects of capitalism on the most *able* people, the most *intelligent* people, the people who are the *creative* geniuses in the arts, the people who are the *outstanding* athletes, the people who are the potentially *brilliant* intellectuals or scientists.

All of those people need huge amounts of resources. The sciences are very wealth-intensive disciplines. People who are great artists need an enormous amount of leisure time, education, and perhaps travel to be able to do what they do. Orchestras, for example, are obviously very wealth-intensive—to be able to put a whole orchestra together costs a lot of money. Or even to take a band on the road, and so forth.

So all of these people—the people who are the most outstanding representatives in the sciences, in the arts, in athletics, and so forth—we are going to have more of them doing more awesome work in a free-market capitalist society, precisely because capitalism is able to generate the wealth to support those people, to enable them to do the awesome things that they do.

Argument 9: *Liberalism's individualism increases happiness.*

Next, the argument is that by protecting the amount of freedom that individuals enjoy, capitalist societies will cultivate and encourage significant amount of individuality—and that means we will have more *happy* people in society.

In order to be happy, we have to do our own things, in our own way. Most of us resent being told what to do, being made to do things that we don't want to do and not being able to enjoy the fruits of our labor.

In capitalist societies, though, we encourage people to do their own thing, to have their own tastes. We do not assign them to jobs—we let them choose whatever career that they want to go into. Outside of the career, we encourage people to have their own musical tastes, to dress how they want, to go and consume whatever movies and books and so forth that they want.

So liberal capitalist societies encourage a great deal of individuality and it is precisely through being our own person and living our own lives our own way that we become happy and fulfilled individuals.

Other societies, by ordering people to live a certain way, by not allowing them to do what they want, by assigning them to jobs, by taking the fruits of their labor away from them—such societies discourage happiness and increase the amount of misery in them.

Argument 10: *Liberal capitalist societies are more interesting.*

By encouraging that amount of individuality in society, the next argument is that capitalist societies are going to be *more interesting* societies. This is almost an aesthetic criterion.

But if you consider about what makes going to parties interesting, or what makes travelling to new parts of the world interesting, what we are interested in is people doing things *differently*, people being *unique* and *authentic* in their own way.

So what we are going to get in capitalist societies, because of the liberality, is people doing their own thing. You will have many eccentric people, of course, but they are going to go and do interesting things in the arts, in the sciences, in philosophy, in business, and in other walks of life.

These liberal societies, then, will have a whole lot more interesting stuff going on and they will be a lot more fun to live in—as opposed to a society that is more conformist or driven by hierarchy or obedience.

Argument 11: *Tolerance increases under liberal capitalism.*

Next argument: Liberal capitalist societies are *tolerant* societies.

Consider religious intolerance, for example, a social ill that has plagued human beings forever. It is precisely in those societies that have encouraged individual freedom—that is, that individuals should be free to live their lives as they see fit, in those societies that encourage individuality, which emphasize the importance of each individual deciding for himself or herself what he thinks is true, what he or she thinks is important, and what he or she is going to do with respect to religious matters—it is precisely in those societies that we start to see the rise of religious tolerance.

If it is a matter of principle that people should be free—that I am going to respect your freedom to live your life as you see fit, including your religious practices, and I will jealously guard my right to live my religious life as I see fit—then to the extent that we both accept that principle and to the extent that we have liberal capitalist institutions protecting that, we will have more tolerance societies that result.

Argument 12: *Sexism and racism decrease under capitalism.*

Next argument: Capitalism leads to a *decrease in racism and sexism*.

You can see this with respect to profit motive, for example, which is a prominent feature of capitalism. Suppose I am in business in a capitalist society, and I want to make a whole lot of money. That is the profit motive. Suppose also, though, that I am a traditional sexist—I am not—but suppose that it were true, and I am hiring and I have two candidates before me. One is a young woman, who just graduated from university with a straight A grades; the other is a young man who just graduated from university with C-average grades.

Now, whom will I hire? Well, the sexist in me will say: “I want to hire the male, not the female.” But the profit-seeking capitalist in me will say, “Definitely, I am going to hire the female, because she obviously smarter and works harder, and she is the one who is going to enable me to make more money as a result of hiring her.”

So, capitalism’s profit motive will lead people to overlook traditional sexist attitudes and, as a result, more men and women will work with each other and the traditional sexist attitudes will go away.

We can see the same thing with respect to racism. Suppose that I am a capitalist and I am also a traditional racist. Suppose I do not like to work with brown people; I am a white person who does not like to work with them. But suppose I have a potential customer who is brown and who comes up to me and says that he wants to buy 100,000 dollars’ worth of goods from me.

Now, the profit-seeking capitalist in me is going to say “Well, I would like to have that 100,000 dollars in sales.” The traditional racist in me might say “I don’t like to deal with brown people.” Which one is going to override?

The argument is that the profit motive gives me an incentive to overlook the racial difference and to deal peacefully in a win-win fashion with people of other races. And once people start to do that, traditional racial attitudes will go away.

Argument 13: *Liberal capitalism leads to international peace.*

And, finally, the argument that capitalism *leads to international peace*.

We can again take the profit motive as an example. What capitalism leads is to a lot of trade, including trade across borders, globalization, and so forth. Globalization is one of the major trends of the capitalist era.

The argument here, though, is that if I am dealing with people in other countries—they are my suppliers and they are my customers. So I do not want to go to war with them.

If people over there are buying millions of dollars' worth of my goods each year, then I do not want them killed. I do not want disrupted the trade networks that are putting money in my pocket.

The same thing holds if I am dealing with people from another country—if they are my suppliers, I need to get the raw materials from them to make whatever it is that I am making. I don't want to go to war with that country, I do not want them killed because that is going to undermine my ability to make a whole lot of money.

So, capitalism fosters trading relationships among nations, and those trading relationships give people an incentive to remain at peace with each other.

And there you have it, 13 arguments for liberal capitalism in 13 minutes, more or less.

© Stephen R.C. Hicks, 2014.

First posted at www.StephenHicks.org.

Videos at [YouTube](https://www.youtube.com/):

<https://www.youtube.com/playlist?list=PLurzsfhvl4oo681j3uK1Sx7kknZ6miM0y> .

Accompanying graphic of the arguments in an integrated [flowchart](#):

<http://www.stephenhicks.org/2014/03/08/chart-images-for-13-arguments-for-liberal-capitalism-in-13-minutes/>.