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OPINIONS

Is capitalism moral?

"If our moral obligation is to provide everyone with a reasonable shot at economic success within a market system that, by its nature, thrives on unequal outcomes, then we ought to ask not just whether government is doing too much or too little, but whether it is doing the right things."

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Careening from debt-ceiling crisis to sequestration to a looming government shutdown, the nation is caught up in a historic debate over the proper size and role of government.
That's certainly one way to think about it. Another is that we are caught up in a historic debate over free-market capitalism. After all, if markets were making most of us better off, regulating their own excesses, guaranteeing equal opportunity and fairly dividing the economic pie, then we wouldn't need government to take on all the things it does.

For most of the past 30 years, the world has been moving in the direction of markets. The grand experiment with communism has been thoroughly discredited, a billion people have been lifted from poverty through free-market competition, and even European socialists have given up on state ownership and the nanny state.

Here at home, large swaths of the economy have been deregulated, and tax rates have been cut. A good portion of what is left of government has been outsourced, while even education is moving toward school choice. In embracing welfare reform, Americans have acknowledged that numerous programs meant to lift up the poor instead trapped them in permanent dependency and poverty.

But more recently, we've seen another side of free markets: stagnant incomes, gaping inequality, a string of crippling financial crises and 20-somethings still living in their parents' basements. These realities are forcing free-market advocates and their allies in the Republican Party to pursue a new strategy. Instead of arguing that free markets are good for you, they're saying that they're good — mounting a moral defense of free-market capitalism.

Many of those leading this intellectual campaign can be found here in Washington. Arthur Brooks, the president of the conservative American Enterprise Institute, and John Allison, the successful banker installed last summer as head of the libertarian Cato Institute, have both recently published books laying out the moral case against the modern welfare state and for even-freer-market capitalism than we have now.

As they see it, regulation is an infringement of individual liberty, while income redistribution, in the form of a progressive tax-and-transfer system, is nothing more than thievery committed against the most talented and productive by those who are not. Regulation and redistribution, they contend, also undermine the vital incentives that drive capitalism, which throughout history has been the best system for freeing large masses of human beings from lives of misery and poverty. What could be more moral, they ask, than that?

The seeds of this moral defense of free markets were planted by John Locke, Adam Smith and Ludwig von Mises, but they blossomed in America in the writings of the Russian emigre Ayn Rand, whose novels "The Fountainhead" and "Atlas Shrugged" are mandatory reading among right-leaning intellectuals and politicians. Where Rand once saw a world divided between "producers" and "moochers," today's conservatives see "makers" and "takers." Where she warned of an America about to descend into totalitarian slavery, they warn of a slide into socialist egalitarianism, special-interest kleptocracy and innovation-snuffing political correctness.

Politically, this new moral offensive got off to a rough start. Republicans tried to make "We built it" a central theme of the 2012 campaign, capitalizing on President Obama's awkwardly-put argument that it takes public infrastructure to create successful businesses. But that message was soon drowned out by the controversy over Mitt Romney's videotaped complaint about the 47 percent of Americans who, by paying no taxes and relying on government handouts, have become wards of the welfare state. Americans recoiled at the elitism and lack of empathy in the candid remarks to wealthy donors, and even Romney recently admitted to Fox News that the comments "did real damage to my campaign."
Now Obama has taken up the conservatives' moral challenge in pressing for budgetary and tax fairness. If they mean to have a war over morality, the president seems to be saying, then let it begin here.

We should welcome this debate. In fact, a big reason our political stalemate has lasted so long, I suspect, is that we've failed to grapple with these big, important questions. Unfortunately, many of the arguments have been a bit flabby, with both sides taking refuge in easy moralizing.

The conservative case against regulation, for example, is premised on the proposition that everything that has gone wrong with the markets is the government's fault. That's the explanation for the recent financial crisis offered by Allison, who, before taking over at Cato, built BB&T from a local bank into a regional powerhouse. Allison's culprits are the Federal Reserve, federally chartered Fannie Mae and Freddie Mac, federal deposit insurance, and misguided bank regulations designed to make credit available to low-income households.

I asked Allison recently about mortgage bankers who made lousy loans that they knew would go bad, and investment bankers who knowingly packaged them into securities, and ratings agencies that gave them their seal of approval. His explanation was that once a misguided government provided the wrong incentives and opportunities, such profit-maximizing behavior was to be expected in a market system — a system that eventually would have punished those who were misguided or unethical if the government hadn't foolishly bailed them out.

Note the Gordon Gekko-like logic here: Because pursuit of self-interest is the essential ingredient in a market system, it somehow follows that individuals and firms are free to act as greedily and selfishly as they can within the law, absolved from any moral obligations. And it's not just in the movies. The same amorality was on display at those Senate hearings in 2010 where Fabrice "Fabulous Fab" Tourre and the team from Goldman Sachs tried to explain to incredulous lawmakers why it was perfectly reasonable to peddle securities to clients that they had deliberately constructed to default.
Free-market advocates have a stronger moral case against government "confiscating" the money earned by one person to give it to another.

The traditional liberal defense of redistribution, of course, is that a lot of what passes for economic success derives not only from hard work or ingenuity but also from good fortune — the good fortune to be born with the right genes and to the right parents, to grow up in the right community, to attend the right schools, to meet and be helped by the right people, or simply to be at the right place at the right time. A market system should reward virtue, they argue, not dumb luck.

The American spin on the luck problem is "equal opportunity, not equal outcomes" — offering a leg up to those who are disadvantaged through no fault of their own. While that may sound right to most of us, the practical and moral challenge comes in figuring out which disadvantages to compensate for and how much.

Given the importance of education to economic success, for example, we've come to believe it only fair that everyone gets a basic education. But does that moral imperative extend only to grades K-12, or should it also include preschool, as Obama has recommended? What about college or graduate school? And are we willing to take the equalopportunity argument so far as to deny wealthy families the liberty to buy their children what they and others believe to be a superior private-school education? Apparently not.

One problem with liberals' equalopportunity argument is that they have yet to articulate the moral principles with which to determine how far the evening-up should go — not just with education but with child care, health care, nutrition, after-school and summer programs, training, and a host of other social services.

Similar questions arise over safety-net programs for the poor, which all but the most dogmatic conservatives feel some moral instinct to provide. What should be the height of the net and the tightness of its weave? Who should be entitled to its protections, and for how long?

Such questions get lost in today's debate, which is focused on fiscal benchmarking against current spending rather than moral benchmarking against agreed-upon principles. Liberals often offer a pretty good imitation of the caricature that conservatives paint when they reflexively declare that whatever we are now spending is not enough.

Similarly, when the president demands that the wealthy pay their "fair share" of taxes, what exactly does that mean? Is it merely that top marginal tax rates should be restored to pre-Bush levels? Apparently not. The prevailing notion of "fair" among liberals now appears to include eliminating the preferential tax rate for dividends and capital gains, phasing out the beneficial impact of itemized deductions and removing the cap on income subject to the Social Security tax.

A paper by economists Peter Diamond of MIT and Emmanuel Saez of the University of California at Berkeley now making the rounds in the liberal blogosphere claims to show that the optimal level of marginal taxation of the rich is 73 percent. By "optimal," Diamond and Saez have in mind a narrow definition: maximizing government revenue. Given the current budgetary constraints, however, many liberals have taken this to mean that we're leaving huge sums on the table that should be used to help the poor and a middle class that is always and everywhere struggling.
In his 2012 book, "The Road to Freedom," Brooks of AEI suggests there is a good reason liberals can't, or won't, articulate principles that might help put some limits on policies meant to equalize opportunity and provide a safety net, goals he supports. If liberals did so, he argues, it would reveal that a lot of what constitutes our safety-net entitlement programs is not taxing the rich to help the poor; it is taxing the rich to help the middle class and satisfy the urge to equalize not just opportunity but also incomes, an urge that Brooks argues is hard-wired in liberal politics. What, he asks, is the moral justification for that?

Middle-class entitlements, which include a big chunk of programs such as Social Security, Medicare and subsidized college loans, force us to ask: How much income redistribution is enough? Must we keep redistributing until we reach the equality levels of the 1950s, which liberals seem to consider the golden years? Or until the United States matches the income distribution of other industrialized countries? Or until polls show that the middle class believes it has achieved economic security?

The common justification for middle-class entitlements is more political than moral: If we limit safety-net and opportunity-equalizing programs only to the poor and the disabled, over time these would suffer the fate of all welfare programs and gradually be starved of funding. The only way to preserve widespread political support for them, liberals argue, is to extend them to the middle class.

The interesting thing about this argument is that it effectively acknowledges what Romney and the free-market crowd have long suspected: that liberals have been able to create a welfare state only by addicting a middle-class majority to government subsidies — subsidies that now can be financed only by taking more and more money from the rich.

I don't know if Brooks is right when he says we could reduce the cost of the safety-net and opportunity-equalizing programs by 40 percent if we limited them to the poor and the disabled. But even if he is half-right, a 20 percent reduction would provide a sizable bit of fiscal headroom to strike a different balance between the moral obligation to provide a safety net and the moral obligation to let people keep as much of their hard-earned money as possible.

There remains, however, one glaring problem with the moral case against redistribution. For implicit in the imperative to let the productive keep what they earn is an assumption that the markets distribute income in a way that accurately reflects everyone's relative economic contribution — and therefore is fair. But is that true?

http://articles.washingtonpost.com/2013-03-15/opinions/37732829_1_free-markets-free-market-capitalism-historic-debate

In an economy of self-sufficient farmers and ranchers, people can point to something and credibly claim, "I produced that" or "I built that." But in a modern, complex economy, the connection between what is produced and who is responsible for producing it is not so obvious. Modern business is a team sport.

It was only 20 years ago, for example, that wage and salary earners reliably captured about 75 percent of the national income, with the rest going to the providers of capital. But in recent years, labor's share has fallen closer to 67 percent.

A similar shift in the distribution of rewards has occurred within firms and within industries, with much more of the income captured by superstar performers or those at the top. Fifty years ago, the typical corporate chief executive earned less than 50 times the pay of the average front-line worker. Today, the ratio is closer to 350 to 1.

These shifts suggest that the way markets distribute rewards is neither divinely determined nor purely the result of the "invisible hand." It is determined by laws, regulations, technology, norms of behavior, power relationships, and the ways that labor and financial markets operate and interact. These arrangements change over time and can dramatically affect market outcomes and incomes.

This poses a dilemma for those making a moral case for free markets. If providers of capital could lay a moral claim to 25 percent of the nation's income as recently as the early 1990s, why do they have a moral claim to 35 percent today? If the top five executives in a big public corporation could once lay claim to 2 or 3 percent of its profits, what gives them the moral right to 10 percent today? And what possible moral justification could there be for a system in which, for every dollar of increased output resulting from higher worker productivity, a mere 13 cents now goes to the typical worker in higher pay and benefits?

Moral philosophers since Adam Smith have understood that free-market economies are not theoretical constructs — they are embedded in different political, cultural and social contexts that significantly affect how they operate. If there can be no pure free market, then it follows that there cannot be only one neutral or morally correct distribution of market income.

In our current debate over capitalism, too much attention is focused on whether, how or how much to redistribute the incomes that markets have produced, with too little focus on the institutional arrangements that determine how that income is divided up in the first place. Such a focus would take in everything from minimum-wage laws to labor laws to the rules of corporate governance. At this point, the markets' uneven distribution of income has become so dramatic that it threatens to overwhelm the ability of a progressive tax-and-transfer system to keep up with it.

A useful debate about the morality of capitalism must get beyond libertarian nostrums that greed is good, what's mine is mine and whatever the market produces is fair. It should also acknowledge that there is no moral imperative to redistribute income and opportunity until everyone has secured a berth in a middle class free from economic worries. If our moral obligation is to provide everyone with a reasonable shot at economic success within a market system that, by its nature, thrives on unequal outcomes, then we ought to ask not just whether government is doing too much or too little, but whether it is doing the right things.

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