

THE 28TH JOHN BONYTHON LECTURE 2012



Charles Murray

# Capitalism and Virtue

Reaffirming Old Truths

# **Capitalism and Virtue: Reaffirming Old Truths**

**Charles Murray**

The 28th John Bonython Lecture  
delivered on 19 November 2012  
at Hilton Hotel, Sydney

CIS Occasional Paper 130



**2013**

Published January 2013  
by The Centre for Independent Studies Limited  
PO Box 92, St Leonards, NSW, 1590  
Email: [cis@cis.org.au](mailto:cis@cis.org.au)  
Website: [www.cis.org.au](http://www.cis.org.au)

Views expressed in the publications of The Centre for Independent Studies are those of the authors and do not necessarily reflect the views of the Centre's staff, advisers, directors, or officers.

---

National Library of Australia Cataloguing-in-Publication Data:

Murray, Charles A.

Capitalism and virtue : reaffirming old truths / Charles Murray

9781922184078 (pbk.)

CIS occasional papers ; OP130.

Capitalism

Social classes--United States.

United States--Social conditions--1980-

United States--Economic conditions--2001-

306.097309051

# Introduction

Kenneth Minogue

Professor Emeritus at the London School of Economics  
and Political Science and 1992 John Bonython Lecturer

It is a pleasure to welcome Charles Murray this evening as the Bonython Lecturer for 2012. I have long admired his grip on social data, his lucidity of expression, and above all, his courage as an exponent of classical liberal thought and practice. He has written a great deal, and has just published *Coming Apart: The State of White America, 1960–2010*, which tracks the emerging division in American life between a tertiary educated class evolving a distinct culture of its own, a culture sharply distinguished from that of the less successful majority of Americans.

As one reads any writing by Charles Murray, a nagging doubt sometimes arises and one thinks, ‘Yes, but ...’ Almost immediately, Murray is ahead of you, and the question is matched with an argument that deals with it. He has had fascinating things to say about the underclass in the past, with special attention to its British version in some cases. Murray not only has a remarkable grip on the (often difficult) data by which we try to grasp what is happening in the society around us. He interacts with it.

I have just been re-reading *Brave New World*, which provoked the memory of an essay by its author, Aldous Huxley, about lectures. He suggested that lectures had little point in our world because the propositional content of a lecture can be read in about a third of the time it takes for delivery. Lectures were, Huxley thought, an anachronism left over from the Middle Ages, when books were scarce and scholars were forced to communicate their doctrines person to person. Similar arguments sometimes invoke the Internet as the coming revolution in education.

I think this is quite wrong. The point about a lecture is that it goes well beyond its propositional content, and reveals a scholar's enthusiasms, hesitations, doubts, sometimes indeed his or her evasions, and much else. On the occasion of a lecture—and in particular a named lecture such as the Bonython—speakers and audience for a short time enjoy a community of question, argument and answer that is central to our intellectual life. It is this capacity to constitute, even if only briefly, 'discussive communities' of this kind that is central to our enjoyment of freedom.

I admire Murray's lucidity. But I admire even more another of his virtues, namely, courage. This became very evident in 1994 when he wrote, with Richard Herrnstein, *The Bell Curve: Intelligence and Class Structure in American Life* (1994). The reason this is courageous is that wherever the issue of justice arises—gender justice, ethnic justice, social justice, or any kind of comprehensive justice—a remarkable thing happens. All concern with intelligence—or even general competence—goes out the window. The question of ability has been banished by the force of political correctness. And now, in his new book, Murray is at it again, concerned with the place of intelligence in the development of contemporary modernity.

Murray is thus not afraid to face the kind of abuse and misunderstanding that any kind of incorrectness is likely to provoke. And, as I have characterised lectures, you will understand that merely to undertake such things requires a certain recklessness. It is a form of intellectual revelation, and revelation always has its dangers.

Everything of course has its dangers, and you will no doubt be observing that I am myself at this moment in a dangerous situation. I am in danger of crossing the line beyond introducing a speaker on the one hand, and blundering into the lecture space itself, burling on about the issues that will soon arise. I must immediately cut this knot. Let me, then, simply express, on behalf of all of us, our welcome to Charles Murray, on this grand CIS occasion, as the Bonython Lecturer for 2012.

# Capitalism and Virtue: Reaffirming Old Truths

Charles Murray

Let me begin by expressing my thanks to The Centre for Independent Studies for the great honour of selecting me to deliver this year's John Bonython Lecture. I have been an admirer of the work of the CIS since my first visit to Australia in 1987, and it is a great honour to join the distinguished list of lecturers who have preceded me.

This is my fourth trip to Australia, all under the auspices of the CIS. I've enjoyed myself immensely on each of them, except when the time has come for me to get up and speak about my latest work on the state of the United States. The question at the back of my mind as I get in front an audience of Australians has thus always been, 'Why would these people want to know what I'm about to tell them?' Because it goes without saying that Australia is very different from the United States in many ways, and the US experience does not necessarily give much guidance as to what course Australia ought to take.

Tonight I feel less apprehensive, because the story I am going to tell you about the United States is not so different from what's been going on in Australia. At least that's been my impression from conversations with Australians and from reading the manuscript of a forthcoming book by Nick Cater, editor of the *Weekend Australian*, which deals with some of the same topics. So whereas I am not so brash as to try to tell you exactly how the US experience parallels Australia's, I invite you to make those judgments for yourself as I go along.

## **Class warfare**

Here is the situation in the United States: Capitalism has become a dirty word. In the recent presidential campaign, the Democrats successfully portrayed what Mitt Romney accomplished at Bain not as part of the

wealth creation that has made the United States so prosperous, but as destructive manipulation of power to enrich individuals *at the expense* of ordinary Americans. More broadly, President Barack Obama tried a tactic that has always backfired against US politicians in the past—encouraging class warfare. This time, it worked.

None of this has happened just because of Obama or the financial meltdown and the subsequent Great Recession in 2008. Obama and the meltdown reified long-term trends. In a nutshell, over the course of the last 50 years, the United States has seen a divergence in classes that is different from anything the nation had known before. Part of that divergence has led to a new lower class that has dropped out of the institutions of American life—especially marriage and work. The other part of the divergence has led to a new upper class that is increasingly segregated from, and ignorant of, life in mainstream America. The nature of that new upper class has contributed mightily to the class antagonism that we are now seeing in the United States, and to the blighted reputation of capitalism. My purpose in this year's Bonython lecture is to describe the larger historical forces that have been at work in the United States (and I think they have analogues in Australia), then turn to how they are manifesting themselves, and conclude by talking about what might be done.

### **Historical forces**

Over the course of the twentieth century, and especially in its second half, two large historical forces reshaped America's social structure.

### ***Brain power***

Brains became much more valuable in the marketplace. America's university system became more efficient at finding talent wherever it existed—and sending the talented not only to college but to elite colleges.

Consider the ways in which brains became more valuable in the marketplace. Imagine someone with spectacularly good math skills but no social skills whatsoever—a complete nerd and dork. In 1920,

how could he make a living? He could teach math, but he wouldn't be very good at that without social skills. He could be an actuary. That's about it. In 2012, how does he make a living? If he is a gifted programmer, as many gifted math students are, he starts by choosing between competing offers from Google and Apple, where he soon will be making six figures. If he is a terrific pure mathematician, the quant hedge funds can realistically offer him the prospect of wealth beyond the dreams of avarice.

The increased market value of brains applies to all professions. Suppose you were an attorney in 1920. You made a good income, but if you had a private practice, you charged the fees that private individuals could afford to pay for routine legal services. If you worked for a corporation, you made an ordinary corporate salary. When the law was fairly straightforward and business deals were fairly straightforward, no lawyer, except for a handful of celebrity defence lawyers and divorce lawyers, charged lavish fees. Today, if you are an attorney with the intellectual gifts that enable you to put together the incredibly complicated international business deals that are now commonplace, you can be worth a commission of millions of dollars. If you can negotiate a favourable regulatory decision on a complex, highly technical issue, a decision that can make a difference of tens of millions of dollars to the bottom line of your corporate client, you can be worth your four-figure hourly fee.

In business, the same thing happened. The bigger the stakes, the greater the value of marginal increments in skills. In 1960, the hundredth-ranked corporation on the *Fortune 500* had sales of \$3.2 billion in today's dollars. In 2010, the hundredth-ranked corporation had sales of \$24.5 billion—almost an eight-fold increase in constant dollars. If you are a skilled manager who can increase your division's profitability by 10%, you are worth a lot more money to a company with annual sales of \$24 billion than to a company with annual sales of \$3 billion. Part of the effect of the vast increase in the size of today's largest corporations is that the people who can rise to the top in them are not just affluent, as they were 50 or 80 years ago, but genuinely wealthy.

## ***Elitism***

The second large historical force happened fairly abruptly, in the 1950s, in America's universities. I'll use my alma mater, Harvard, as an example. As late as 1952, the mean entrance-test score for incoming Harvard freshmen put that average freshman well above the average of all students taking the test, but nothing special—at around the eightieth percentile. By 1960, the *average* freshman was at the ninety-eighth percentile. The score for the average Harvard freshman in 1952 would have placed him in the bottom 10% of the incoming class by 1960. In eight years, Harvard went from a place with a lot of rich, moderately bright kids and a few super-smart ones to a place with lots of super-smart kids and some rich ones. The same thing happened throughout America's elite colleges.

Why is this important? First, because college is a crucial socialising experience, and socialisation at elite colleges is especially powerful. It's not just that being in an elite college gives its students a powerful sense of being special and entitled, though that's part of it. These gifted students are in that environment at a time in their lives when they especially want to be seen as fitting in. It is an environment tailor-made to generate a distinctive culture whose members share tastes and preferences that set them apart from the common herd. And that's what happens.

Second, elite employers also recruit at elite schools—not because a Harvard or Yale education is particularly good. Even in 1961, when I arrived at Harvard, we were told in the first week that the hardest thing about Harvard was getting in, and that is even more true today. Elite firms recruit at elite schools because Harvard undergraduates are in fact usually super smart, and brainpower is worth a lot in the marketplace. The result is that the graduates of elite schools are disproportionately concentrated among the staffs of the most influential firms in the financial and corporate worlds; the most prestigious newspapers and magazines, publishing houses, other media outlets; and the most prestigious jobs in Washington's incestuous world of bureaucrats, legislators, lobbyists and lawyers.

Third, these kids who are shipped off to elite schools tend to end up marrying each other. Consider the CEO of a company in 1920.

Whom did he marry? First, he would marry in his early or mid-20s—that was the normal age then—and he had probably married some version of the girl next door. There's nothing wrong with the girl next door, but she is not systematically screened for IQ or for other exceptional abilities. Now consider the CEO of a company in 2012. He probably didn't marry until at least his late 20s, probably his 30s. And he didn't marry the girl next door. His company was engaged in litigation and a really cute lawyer on the other side's team caught his eye. He married her. She got her BA at Stanford and her law degree from Yale. She is indeed screened for IQ, ambition, industriousness, and all sorts of other qualities. This kind of thing goes on all the time. Take a look at the online Sunday edition of the *New York Times* with its section listing recent weddings—what some people call the mergers and acquisitions section. Incredibly able people marrying incredibly able people.

These parents don't just pass on money to their children. They pass on socialisation to a particular kind of world and they pass on talent, both through genes and their parenting. When this goes on for decades—and it's been going on ever since the college sorting machine kicked into high gear in the 1950s—you change the composition of the next generation of the successful, and the adages about 'shirtsleeves to shirtsleeves in three generations' don't have the same validity they used to. The new upper class is much more tenacious in hanging onto its status across generations.

Fourth, the combination of the wealth that is commonplace among this new elite, their shared tastes and preferences, and the limited number of urban centres in which these most prestigious jobs are concentrated, means that the new elite flocks together as never before. Using census data, I constructed an index for rating all of the nation's postal codes (31,720)—we call them 'zip codes' in the United States—on an index that combined median family income and the percentage of adults with college degrees, and ranked all the zip codes from top to bottom. I labelled those in the top 5% as 'SuperZips.' In many parts of the country, SuperZips are isolated, surrounded by less exalted neighbourhoods. But the four urban areas where most of the most powerful people in America live—the areas in and

around New York City, Los Angeles, San Francisco, and, of course, Washington—SuperZips form large clusters of contiguous zip codes. Here's an example: Washington's movers and shakers overwhelmingly live in 13 zip codes in the northwest part of the city and the adjacent suburbs of Chevy Chase, Bethesda, McLean and Potomac. As of the 2010 Census, 11 of the 13 are not just in the top five percentiles of zip codes, but in the top half of the ninety-ninth percentile. The other two? They're in the bottom half of the ninety-ninth percentile. Furthermore, those 13 are surrounded by another 80 contiguous SuperZips with a population of 1.7 million people. The New York area has 202 SuperZips arranged in half a dozen of these contiguous clusters, with an aggregate population of 2.7 million.

But hasn't this always been true? Haven't the successful people always moved to the good neighbourhoods and lived together? The answer is generally yes, but never before have elite neighbourhoods been so culturally homogeneous. Fifty years ago as it is now, there were neighbourhoods in the United States famous for being the home of the rich and the powerful—the Upper East Side of New York, Northwest Washington, the Main Line in Philadelphia, the North Shore of Chicago, Beverly Hills and Bel Air in Los Angeles, and the like. I assembled census tract data from the 1960 Census for 14 such elite neighbourhoods. In 1960, the median family income in those 14 neighbourhoods was \$84,000 in today's dollars. Today, \$84,000 is not wealth. It's not even affluence. This result doesn't mean that rich people didn't live in those 14 neighbourhoods. Rather, there were lots of people living in them who weren't rich. In 1960, only 26% of adults in those neighbourhoods had college degrees. The average couple, including a lot of the rich ones, consisted of a man with a bachelor's degree and a wife with a high school diploma. All by itself, that introduces a lot of range into the socialisation of people at a dinner party in those neighbourhoods. Today, the same dinner table in those same neighbourhoods is likely to consist of couples who are all at least affluent, many of them wealthy, almost all of them have college degrees, a lot of them have advanced degrees, and a lot of those degrees come from elite colleges. They now are the dominant cultural force in those neighbourhoods—which in the nation's most powerful

cities are now not just neighbourhoods but contiguous areas covering many zip codes and tens or hundreds of thousands of people.

### **The new upper class**

What are the distinctive tastes and preferences of the new upper class? What is the culture they have produced? I'll give you some examples to compare with Australia's version of the new upper class. For example, let us look in on a back-to-school night at a good private elementary school where the new upper class send their children. The first thing you'll notice is how geriatric the parents are. In the typical public elementary school, the mothers of the children are mostly in their late 20s to mid-30s. In the elite school, you may see no mothers in their 20s. Many are in their 40s. With the men, the difference is even greater, with even more of the men in their 40s and some in their 50s. Or older.

Another visible difference is weight. In the mainstream school, two-thirds of the parents are overweight and about a third of them are obese. At the elite private school, the parents are, on average, a lot thinner, and obesity is rare, because the new upper class pays a lot of attention to health and fitness. They may work out at their health club and be attractively lean or run marathons and look emaciated. They know their cholesterol count and often their body fat percentage. They eat lots of whole grains, green vegetables, and olive oil, while limiting the intake of red meat, processed foods, and butter.

When it comes to alcohol, the new upper class usually drink wine or boutique beers. I can't tell you how often I'm the only person holding a martini at a reception peopled by members of the new upper class. As for smoking, do not try to light up when you visit an upper-class home unless you want to become an instant social pariah.

Television is another source of difference. In the average American home, the television is on about 35 hours a week. When you ask members of the new upper class about the programs they watch, you get two kinds of answers. Some people even say they don't have a television any more. Others will say they have one, but they use it mostly to watch DVDs of movies, and maybe *Downton Abbey*. Hardly any member of the new upper class watches so much of as a second of

the game shows, reality shows, soap operas, and hit series that the rest of the country watches.

### **Upper class bubble**

Nothing that I've said about the new upper class is bad. In fact, a lot of what the new upper class does is good. I've poked fun at their obsession with fitness, but being healthy and fit is good. In the United States, just about everyone in the new upper class is married, and a high proportion of those marriages are first and only marriages. That's good. A new-upper-class women who gets pregnant behaves admirably. She does not drink alcohol or allow herself to be exposed even to second-hand smoke, she makes sure her nutritional intake exactly mirrors the optimal diet, she breastfeeds her newborn, and she and her husband bombard the infant with intellectual stimulation from the moment of birth, and sometimes from the moment they know conception has occurred. All that's good too, even if it is sometimes carried too far.

The problem is not that the new upper class has bad habits, but that they are increasingly isolated and segregated from mainstream American culture—they are living in a bubble. When I was writing *Coming Apart*, I created a 25-item quiz to help my readers understand how isolated they really are. The quiz has serious questions such as 'Have you ever lived for at least a year in a neighbourhood in which fewer than half of the people had college degrees?' It has some questions that poke fun, such as 'In the last year, have you stocked your fridge with a mass market American beer?' The new upper class has incredible disdain for mass market beer. Their beer has to be a special dark harvest ale made by Belgian elves. If I were to name what I consider the most important question, it's this: 'Have you ever held a job that caused a body part to hurt at the end of the day?' Carpel tunnel syndrome doesn't count. That question is important because if you *haven't* held such a job, you are fundamentally unable to empathise with the vast number of people who do hold such jobs. You don't *get* all sorts of important things about what life is like when you come home at the end of the day without something hurting.

And that brings me to the scariest part about the isolation of the new upper class. It's not a big problem if someone has grown

up in a working-class or middle-class family and then become rich and powerful. That person still remembers. He can be put down on the main street in a small town in Kansas or a working-class neighbourhood in Boston and recognise all the social cues, and know how to get along. He's in familiar territory. What scares me are the children of that person. They go to private schools from K-12, spending their summers at tennis camp or in exclusive resorts where their parents vacation. They go to excellent colleges, spending their summers interning at Greenpeace or the Brookings Institution. Then they get their law degrees or their MBAs, and move seamlessly as adults into the same upper class bubble that they've lived in all their lives. And they haven't a clue about how ordinary people live.

Worse yet, they are likely to have an extremely condescending view of what ordinary people are like. The children who have been cocooned in a new upper class world are aware that they have always been around smart kids. If they went to an exclusive elementary and secondary school, they've probably never had a close acquaintance who was even close to the national average in IQ. And so we end up with a generation of privileged children who grow to adulthood assuming that the half of the population that is below average must be really hopeless. They have no idea of the good humour, commonsense, ability to cope with adversity, and general competence that can be found across the whole range of human beings, including those who don't test very well on verbal analogies and quadratic equations. And these same children of privilege are increasingly not children, but adults in their 30s and 40s who are rising, or have already risen, to places of great influence over the culture, politics and economy of the United States.

This condescension has not gone unnoticed by the rest of the United States. In their ideologies, the Tea Party and the Occupy Wall Street movement could not have been more unlike. But a great deal of the energy in both movements came from a sense that a detached elite runs the country, setting rules for the rest of society that they don't have to observe themselves. For the Tea Party, the bad guys are bureaucrats and elected officials who encumber the lives of ordinary people with regulations that make it hard to run their schools, communities and

work lives as they think proper. For the Occupy movement, the bad guys are the 1% who lord it over the 99%. But they're both angry at the new upper class—just different components of it.

The solution for the intrusive bureaucrats in the new upper class must be political. Nothing will happen until we figure out ways to rein in runaway government. But what are we to make of American's increasing acceptance that if you've gotten rich, you took it from someone else? What has happened to turn the mood of the country so far from Americans' historic celebration of economic success? What happened to make capitalism a dirty word? And what can be done about it?

### **'Collusive capitalism'**

Two important changes in objective conditions have contributed to this change in mood. One is the rise of what I will call 'collusive capitalism.' Collusive capitalism is not new. Recall Adam Smith's remark in *The Wealth of Nations* that 'People of the same trade seldom meet together ... but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.' Indeed, one of the great successes of the liberal project in the nineteenth century was to create markets that were both free and inhibited collusion. The inhibition never reached perfection, of course, but it worked pretty well—and now it seems to be working less well.

Part of the recent deterioration involves more flagrant collusion among people in the private sector—or crony capitalism. The phenomenon is real. No one has succeeded in putting precise numbers to its growth or prevalence, but I am yet to talk to someone with an inside view of corporate America who does not have stories to tell of executives and boards taking care of each other at the expense of shareholders.

But I submit that the problem of crony capitalism is trivial compared to the collusion between entities in the private and public sectors. In today's world, every business's operations and bottom line are affected by rules set by legislators and bureaucrats. The result has been corruption on a massive scale. Sometimes the corruption is retail, whereby a single corporation creates a competitive advantage through the cooperation of regulators or politicians. Sometimes the corruption

is wholesale, creating an industry-wide potential for profit that would not exist in the absence of government subsidies or regulations. The poster child for this corruption is the subprime mortgage crisis. Why on earth would investment houses on Wall Street create all these exotic financial instruments for trading in subprime mortgages? Because the federal government in its wisdom passed legislation, buttressed by regulations, that not only subsidised such loans but in many cases required banks to make them. Guess what: If you make it possible to get rich by lending money to people who are unlikely to pay it back, clever people will take advantage of it. Many of those clever people on Wall Street behaved irresponsibly, even despicably, without thinking about long-term consequences. But the only reason they got the chance was because government created the temptation, through well-intended policies, to increase homeownership among low-income people, under Bill Clinton and continued enthusiastically by George W. Bush. Most of the public is not aware of the degree to which government's collusion with capitalism caused the financial meltdown of 2008, but collusive capitalism more broadly has become visible to the public, and increasingly defines capitalism in the public mind.

The second change in objective conditions has been the emergence of great fortunes made quickly in the financial markets. It's been an American tradition to *applaud* people who get rich by creating products and services that people want to buy. That's why Thomas Edison and Henry Ford were American heroes a century ago, and why Steve Jobs was an American hero when he died last year.

When great wealth is generated instead by making smart buy-and-sell decisions in the markets, it smacks of inside knowledge, arcane financial instruments, and opportunities that aren't accessible to ordinary people. The good that these rich people have done in the process of getting rich is obscure. In some cases, the benefits are real. Modern developments in the financial industry have greatly increased efficiency in the allocation of capital, and contributed thereby to wealth creation for the economy as a whole. But those benefits are really hard to explain simply and persuasively. In other cases, it is hard even for sophisticated observers to see what useful end is being served, for example, in the zillions of trades that are done in nanoseconds,

scooping up zillions of fractions of pennies. I have asked some of my friends who work for quant investment firms to explain how these trades improve efficiency in the allocation of capital, and none has given me a persuasive answer; some of them did not even try to come up with an answer. In any case, a large proportion of the public only see some fabulously wealthy people who haven't done anything to deserve their wealth. They're wrong in most cases, but it's hard to explain why; in some cases, they're probably right.

### **What is to be done?**

And so that's where we stand in the United States: With a new upper class that is increasingly isolated from and ignorant about the rest of the country, and with the core economic expression of freedom—capitalism—under sustained attack by both the population-at-large and by an administration that will be in power for another four years. What is to be done?

The good news is that my solution does not involve policy changes idiosyncratic to the US situation and of no relevance in Australia. The bad news is that I don't have any policy solutions. There is no one to vote for, no five-point plan to try to get through congress, no executive order that can cure what ails us. We Americans need changes in the culture. Changes in the culture cannot be forced—yes, governments try to force such changes all the time, but they never work out the way the government thought they would. Cultural change happens in the form of widespread movements, which in turn arise from national conversations started in mysterious ways and eventually leading to widespread changes in beliefs and behaviour. Here are the changes I try to push along in whatever way I can.

### **Capitalism and virtue**

The overarching theme is to reconnect capitalism and virtue. The first part of that process must occur within the hearts and minds of the capitalist members of the new upper class, and it involves restoring the concept of seamliness. Fifty years ago, the undisputed luxury car in the United States was the Cadillac. Americans didn't buy Mercedes or BMWs in those days. Many of the corporate executives who could easily afford Cadillacs did not buy them. They drove Buicks

instead. Driving a Cadillac would have been showing off. Getting too big for their britches, to use an Americanism I grew up with. It would have been *unseemly*. Many people could have afforded to build 15,000-square-foot homes. They didn't. Same reason. It would have been unseemly.

Those same senior executives were routinely engaged in community activities—not on a grand scale but a local one. They served as deacons of churches, helped out on the fundraising committee for the local YMCA, and went to Rotary Club and PTA meetings. If we go back even further, to the beginning of the twentieth century, the most prominent people in an American city were part of fraternal organisations with memberships that cut across socioeconomic classes—and they were openly proud of being part of those fraternal organisations.

I am talking about a tradition that goes back to the earliest decades of the American republic. Here is Alexis de Tocqueville writing about America in the 1830s: 'In the United States, the more opulent citizens take great care not to stand aloof from the people. On the contrary, they constantly keep on easy terms with the lower classes: they listen to them, they speak to them every day.' It was a tradition into which each new generation of Americans was propagandised throughout elementary school. From the middle of the nineteenth century through the first few decades of the twentieth century, the nearly universal textbooks for learning how to read were called *McGuffey's Readers*, which were filled with stories that taught moral lessons. They weren't saccharine or simplistic, by the way. I've read *The McGuffey's Readers*—they're available online—and they were filled with much meatier stuff than my children got in elementary school. Plenty of those stories were about the wealth-creation aspects of capitalism. They treated initiative, hard work and entrepreneurship as virtues. But just as many of them were stories praising the virtues of self-restraint, personal integrity and concern for those who depend on you. The freedom to act *and* a stern moral obligation to act in certain ways were seen as two sides of the same American coin.

Little of that has survived. To accept the concept of virtue requires that you believe some ways of behaving are right and others are wrong always and everywhere. That openly judgmental stand is no longer

acceptable in America's schools or in many American homes. The new upper class still does a good job of practising some of the virtues, but it no longer preaches them. It has lost self-confidence in the rightness of its own customs and values, and preaches non-judgmentalism instead. Correspondingly, we have watched the deterioration of the sense of stewardship that once was so visible a part of America's civic culture.

And so capitalism's reputation has fallen on hard times and the principled case for capitalism must be made anew. That case has been made brilliantly and often in the past—Milton Friedman's 'Capitalism and Freedom' is my own favourite. But in today's political climate, updating the case for capitalism requires us to reaffirm old truths in ways that people from across the political spectrum can accept. That restatement might be made in many ways. What follows is mine.

### **The pursuit of happiness**

The United States was created to foster the flourishing of human beings and enable them to pursue happiness. The means to that end was the exercise of liberty under the rule of law. Capitalism is the economic expression of liberty. The pursuit of happiness depends on economic freedom every bit as much as it depends on other kinds of freedom.

So what do I mean by happiness? Formally, the definition I use is 'justified and lasting satisfaction with life as a whole,' drawn straight from Aristotle. It is, for that matter, a definition that fits all the great philosophic traditions.

### **'Earned success'**

Happiness in that sense is produced by a relatively small set of important achievements that we can rightly attribute, at least in large part, to our own actions. Arthur Brooks, president of the American Enterprise Institute, has usefully labelled such achievements as 'earned success.' Earned success can arise from a successful marriage, children raised well, a valued place as a member of a community, or devotion to a faith. Earned success also arises from achievement in the economic realm, which is where capitalism comes in.

Earning a living for yourself and your family through your own efforts is the most elemental form of earned success. Successfully

starting a business, no matter how small, is an act of creating something out of nothing that carries satisfactions far beyond those of the money it brings in. Finding work that not only pays the bills but you also enjoy is a crucially important resource for earned success.

Making a living, starting a business, and finding work that you enjoy all depend on freedom to act in the economic realm. What government can do to help is establish rule of law so that informed and voluntary trades can take place. More formally, government can vigorously uphold laws against the use of force, fraud and criminal collusion, and use tort law to hold people liable for harm they cause others.

### **Economic freedom**

Everything else the government does inherently restricts economic freedom to act in pursuit of earned success. I am a libertarian and think that almost none of those restrictions is justified. But accepting the case for capitalism doesn't require you to be a libertarian. You are free to argue that certain government interventions are justified. You just need to acknowledge this truth: Every intervention that erects barriers to starting a business, makes it expensive to hire or fire employees, restricts entry into vocations or prescribes work conditions and facilities, and interferes with economic liberty—usually makes it more difficult for employers and employees to earn success.

People with a wide range of political views can also acknowledge that these interventions do the most harm to individuals and small enterprises. Huge banks can, albeit at great expense, cope with the absurd regulatory burdens imposed by the recent Dodd-Frank bill; many small banks cannot. Huge corporations can cope with the myriad rules issued by the Occupational Safety and Health Administration, the Environmental Protection Agency, the Equal Employment Opportunity Commission, and their state-level counterparts. The same rules can crush small businesses and individuals trying to start small businesses.

Finally, people with a wide range of political views can acknowledge that what has happened incrementally over the past half-century has led to a labyrinthine regulatory system, irrational liability law, and a corrupt tax code. Sweeping simplifications and rationalisations

of all these systems are possible in ways that moderate Democrats and moderate Republicans could accept in a less polarised political environment.

### **The moral case for capitalism**

To put it another way, it should be possible to revive a national consensus affirming that capitalism embraces the best and most essential things about American life; that freeing capitalism to do what it does best won't just create national wealth and reduce poverty, but that it will also expand the ability of Americans to achieve earned success—and pursue happiness.

If we are to make the moral case for capitalism in those terms, businesspeople who are part of the new upper class must not only talk the talk but walk the walk. We need to live the lives we celebrate. In doing that, I am not asking anyone to sacrifice his or her self-interest. Rather, I am asking for a general rethinking about the way members of the new upper class live their lives. I want parents who grew up in modest circumstances and had to surmount challenges and defeats to think about whether they would really prefer their children's luxurious, protected childhood to the one they had. I want people who live on two-acre lots, walled-off from the life of real communities facing real problems, to ask whether they are missing something. More broadly: Age-old human wisdom has always understood that a satisfying life means being engaged in the stuff of life with the people around us. By the 'stuff of life,' I mean the elemental events of birth, death, growing up, raising children, comforting the bereaved, celebrating victories, commiserating in defeats, dealing with adversity, applauding those who do good, and scorning those who do bad. The kind of cultural renewal I seek requires merely a rediscovery of our self-interest, a renewed understanding that it can be pleasant to lead a comfortable, glossy life. But it is ultimately more rewarding—and more fun—to lead a textured life and be among those who are leading textured lives. Speaking as an American, this does not require embracing some weird new-age creed. It requires a return to a long-standing, deeply held view of why America's civic culture has been something to cherish. I will say parenthetically that it bears many similarities to the civic culture that Australians have cherished.

Making the moral case for capitalism in the terms I have described also requires us to return to the vocabulary of virtue. In the United States, as I'm sure it is also true in Australia, we still have many capitalists in the new upper class who do have a sense of stewardship. Who love to do business with a handshake. Who have a strong sense of what constitutes ethical behaviour. I'm probably talking about the large majority of all businesspeople in both countries. The problem is that they're tongue-tied. Capitalists who behave honourably and with restraint no longer have the platform or the vocabulary to preach their own standards and to condemn capitalists who behave dishonourably and recklessly. Somehow the moral case for capitalism, and for the virtues of self-restraint, integrity and stewardship that must accompany capitalism has stopped being part of the nation's civic catechism it once was. We should not only adhere to those virtues, as so many of us already do. We also need to be open about what we are doing and why, and openly condemn those who do not adhere to those virtues.

## **Conclusion**

The capitalists of the new upper class face two tasks. One is to show the middle class and working class that the members of the new upper class cherish their kinship with their fellow countrymen and women far more than they cherish being rich. Another is to remind those in the new upper class who are oblivious to the moral grounding of capitalism that paying a lot of taxes can never make up for the rot in the culture that they are encouraging.

A new upper class committed to principled capitalism can nurture and revitalise the heritage of liberty that is at the heart of what makes America America and, I will venture to say, what makes Australia Australia. The capitalists who see capitalism as nothing more than a convenient way to make money threaten to destroy that heritage.

# Closing Remarks

Peter Kurti

Research Fellow in the Religion and Free Society Program

**A**nti-libertarians will have us believe that the relationship between capitalism and virtue is, at best, tenuous. Any connection between these two concepts, they tell us, can only amount to what chastity and continence were to St Augustine: a distant aspiration rather than a binding obligation.

Dr Charles Murray, tonight you have helped us understand why capitalism and virtue are indeed obligations that bind us—and are binding upon us. And you have done that with a dramatic portrayal of this divergence of classes in American society.

I was delighted when Greg Lindsay invited you to give the John Bonython Lecture this year. I had just read *Coming Apart* and was privileged to review it for *Policy* magazine, and felt that the arguments you presented in the book were utterly compelling. Not in the sense that they were beyond question—I think you yourself would not propose that—but that they were compelling in the way they showed that virtue needed to underlie the decisions we make about how we choose to live.

Tonight, you have reminded us of the importance of the exercise of self-restraint, of the recovery of virtue, and of a commitment to what you call the ‘civic catechism.’

Libertarians love to talk about freedom; about freedom of economics, freedom of law, or freedom of religion, but there is also a moral responsibility to exercise liberty in a virtuous way. You have recalled us to that important question that underlies the investigation of virtue, which is how to live. What do we want freedom for if we are not prepared to consider how to exercise responsibly the freedom that we say is so important? We want freedom, but what should we do with it?

The Left has often successfully portrayed us free-market thinkers, libertarians, as people who abdicate responsibility. We've seen that in the recent US presidential election. Those of us committed to classical liberalism have to articulate a new vision of capitalism and virtue that shows that, in fact, capitalism is no abdication of virtue but rather forms an integration of virtue.

These are indeed old ideas whose time is ready to come again. Dr Murray, thank you very much indeed for heralding their return.



**The Centre for Independent Studies** is a non-profit, public policy research institute. Its major concern is with the principles and conditions underlying a free and open society. The Centre's activities cover a wide variety of areas dealing broadly with social, economic and foreign policy.

The Centre meets the need for informed debate on issues of importance to a free and democratic society in which individuals and business flourish, unhindered by government intervention. In encouraging competition in ideas, The Centre for Independent Studies carries out an activities programme which includes:

- research
- holding lectures, seminars and policy forums
- publishing books and papers
- issuing a quarterly journal, **POLICY**

For more information about CIS or to become a member, please contact:

#### **Australia**

PO Box 92, St Leonards,  
NSW 1590 Australia  
Ph: +61 2 9438 4377  
Fax: +61 2 9439 7310  
Email: [cis@cis.org.au](mailto:cis@cis.org.au)

**[www.cis.org.au](http://www.cis.org.au)**

#### **Council of Academic Advisers**

Professor Ray Ball  
Professor Jeff Bennett  
Professor Geoffrey Brennan  
Professor Lauchlan Chipman  
Professor Kenneth Clements  
Professor Sinclair Davidson  
Professor David Emanuel  
Professor Ian Harper  
Professor Helen Hughes AO  
Professor Wolfgang Kasper

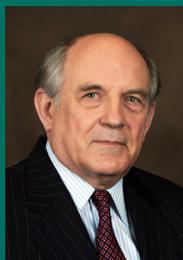
Professor Chandran Kukathas  
Professor Tony Makin  
Professor Kenneth Minogue  
Professor R. R. Officer  
Professor Suri Ratnapala  
Professor Steven Schwartz  
Professor Judith Sloan  
Professor Peter Swan AM  
Professor Geoffrey de Q. Walker

## Capitalism and Virtue: Reaffirming Old Truths

Capitalism has become a dirty word and the current 'segregation of capitalism from virtue' is one of the major contributing factors to capitalism's image problem.

Over the course of the last 50 years, the United States has seen a divergence in classes that is different in kind from anything the nation has known before. This has led to a new lower class that has dropped out of the civil institutions of American life—especially marriage and work—and a new upper class that is increasingly segregated from, and ignorant of, life in the mainstream. The nature of this new upper class has contributed mightily to the class antagonism in the United States, and to the blighted reputation of capitalism.

The problem is not that the new upper class has bad habits, but that they are increasingly isolated and distanced from mainstream culture, and are living in an elite bubble. In the 2012 Annual John Bonython Lecture, eminent political scientist Charles Murray describes the larger historical forces that have been at work in the United States (and, to a lesser extent, Australia) and makes a strong moral case for capitalism.



**Dr Charles Murray** is a leading US political scientist and the W.H. Brady Scholar at the American Enterprise Institute in Washington. Dr Murray authored the important book published earlier this year, *Coming Apart*, which delves into the growing divide between cultural, political and intellectual elites and the rest of society.

Dr Murray's 1994 *The Bell Curve* is a New York Times bestseller and was released to heated controversy because of its analysis of the role of IQ in shaping America's class structure. His influential 1984 book, *Losing Ground*, was considered to be the intellectual foundation of the Clinton welfare reforms and the moves worldwide to come to grips with the growing problems of welfare dependency.

CIS Occasional Paper 130  
ISBN 978-1-922184-07-8  
ISSN 0155 7386

[www.cis.org.au](http://www.cis.org.au)

