

# The Morality of Capitalism

*James Q. Wilson*

THE CENTRE FOR  
INDEPENDENT  
STUDIES

The John Bonython Lectures

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INDEPENDENT  
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Occasional Papers 62





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# Opening Remarks

*Alan McGregor*

*Chairman, CIS Board & Directors*

**G**ood evening and welcome. It's a great pleasure to welcome everyone and to thank those of you who have come and brought guests to tables, and thank you also for your support for the CIS. I'd especially like to acknowledge the financial support of the Lynde and Harry Bradley Foundation, a US based **foundation**, for this evening's event and Professor Wilson's visit.

The John Bonython Lecture was established in 1984 and named after the late John Bonython **of Adelaide**, who was the first Chairman of the Centre's Board **of Trustees**, as it then was. I'm delighted tonight to welcome Mrs. Shirley Bonython, her son Hannibal and her daughter Isabel who have come for the dinner and for the lecture.

The principal purpose of the John Bonython lecture is to examine the relationship between individuals and the economic, social and political elements that make up a free society. Over the years this lecture has been presented by an extraordinary range of very high profile speakers including Nobel Laureate James Buchanan, the Czech prime **minister Václav** Klaus, Peruvian novelist and sometime presidential candidate Mario Vargas **Llosa**, and the chairman of News Limited, Rupert Murdoch, amongst others.

This year we are delighted to have one **of America's** most distinguished academics, Professor **James Q. Wilson**, more affectionately known as Jim, who comes from the University of California at **Los Angeles**. As is clear from just this small selection of people who have given the John Bonython lecture, we consider it is an important event in achieving the Centre's aim to bring influential people from around the world to Australian audiences and to stimulate thinking and policy development.

For anyone who is not a member the Centre **I invite**, in fact I urge, you to assist us by becoming one, and also give yourself the opportunity to take part in the extraordinarily important public policy debate in Australia. There are very few institutions like the CIS in Australia; there are many more in America, and they do play a more prominent role in policy formation in America. It is I'm sure the wish of most people in this audience that we do not leave it to governments alone to develop policy ideas, and I would immodestly say that we are now the

leading policy development organization in Australia.

The vote of thanks this evening was to be given by Mr. Bob Carr, but he rang today and said that he was ill; he thought he'd get through the day but he could not see himself getting through the night. I don't think it's permanent. Anyhow, his place will be taken by the valiant Professor Peter Dodd, who is now the Dean of the Australian Graduate School of Management at the University of New South Wales, a long time director of the Centre, supporter and intellectual giant.

Jim Wilson will be introduced by Helen Lynch, who I'm glad to say is the most recently appointed director of the Centre, and we are delighted to welcome her not only for this evening's job but also as a director. It remains only for me to say that I hope you will have a great night and enjoy yourselves.



# Introduction

*Helen Lynch*  
*Board Member,*  
*The Centre for Independent Studies*

**T**hank you ladies and gentlemen. It is my pleasure this evening to welcome our guest speaker, but could I say that I met **James Wilson** for the first time at lunch and the observation I would make is that he is a man of great taste and very astute. He and **Roberta**, his wife, have spent the last week or so scuba diving in beautiful Port Douglas. I think after showing that great taste he is also a man who does some homework, because when he met me today the first question he asked me was, 'Helen, where do you buy **Penfolds** wine in the United States?'

Jim Wilson brings with him to Sydney the insight gained from several decades of varied experience. He has had a long and distinguished academic career. After completing a **Ph.D.** at the University of Chicago, he taught Political Science at **Harvard** University for 26 years and moved back to California, his home state, in 1985, to the University of California at **Los Angeles**.

Through that time he was far from being an ivory tower academic. He has been what is sometimes called a 'public intellectual,' a person who combines the high intellectual standards of the university with a commitment to communicating with an audience that goes beyond the classroom and the academic journals. In other words, just my kind of man: someone who communicates in wonderful language that we lay people can understand.

Anyone who has read articles or books by Professor Wilson will have enjoyed the way that he combines the careful marshalling of evidence and logical building up of arguments - which we all expect of academics - with the use of telling examples and fluent jargon-free prose that we expect from a good journalist.

Professor Wilson has not only been remarkable as a man of style, but for the range of his writing. While trained as a political scientist, he has not felt confined to **looking** at the inner **workings** of government - although I might **qualify** that by saying that he has written important books on bureaucracy and political organizations. Some of his best-known work has been on the subject of crime. His name has been closely linked with what has come to be known as the 'broken **win-**

dows' thesis about crime.

The idea is that maintaining order depends upon dealing with small offences as well as serious ones. Petty crime signals to people that an area is unsafe, discouraging them from going there, and so further reducing the informal social controls that make an area safe. Leaving broken windows unrepaired is a sign that nobody cares, and it is OK to commit further offences because they won't be dealt with. Professor Wilson gave this idea prominence in an article he wrote in 1982, and in the last few years it has become very influential in policing methods. Strategies based on it are credited with contributing to the large drops in the crime rate in New York - 50% since 1990 - and in other American cities.

This is another important aspect of Professor Wilson's work: a concern with the practical as well as the theoretical. He gets outside the university to find out what works and what does not. This is no doubt why he has on many occasions been asked to consult and advise governments. His book, *The Moral Sense*, published in 1993, which the *Wall Street Journal* referred to as 'a work that could well mark a turning-point in the search for a common ground on which to build a good society,' deals with the factors that have led to a decline in morality over recent decades. His work on crime also reflects his interest in morality, recognizing that it is a commitment to moral standards and not fear of the criminal law that keeps most people out of the courts and jails, and that changes in these moral standards are partly behind the rise in criminal behavior.

His lecture tonight combines these Wilsonian attributes. It's about morality, but also with the practical consideration of how to link morality with an economic system that works, and I think you will find it, ladies and gentlemen, all done in a way that brings an important message to a wider audience.

On your behalf, I warmly welcome Professor James Q. Wilson to the podium to deliver the 14th annual John Bonython Lecture.

# About the Author



James Q. **Wilson** was raised in Long Beach, California, and was educated at the University of **Redlands** (AB, 1952) and the University of Chicago (PhD, 1959). He has also received honorary degrees from six universities.

He spent 26 years as Professor of Government at Harvard University, and in 1985 was appointed James Collins Professor of Management and Public Policy at the University of California at Los Angeles.

He has advised four U.S. presidents on crime, drug abuse and education, and has served on a number of national commissions concerned with public policy, including the White House Task Force on Crime, the National Advisory Commission on Drug Abuse Prevention, the Attorney **General's Task Force on Violent Crime** and the President's Foreign Intelligence Advisory Board.

He was awarded the James **Madison Award** for a career of distinguished scholarship by the American Political Science Association in 1990, and the John Gaus Award for exemplary scholarship in the fields of political science and public administration in 1994.

Professor Wilson is most famous for the '**Broken Windows**' theory of crime, developed in a paper written jointly with George **Kelling** in 1982. He is also the author or co-author of fourteen books, including *The Moral Sense*, *American Government*, *Bureaucracy*, *Thinking About Crime*, *Varieties of Police Behavior*, and *On Character*, a collection of essays on crime and civility. His most recent book is *Moral Judgment: Law, Science and Personal Responsibility* (1997).



# The Morality of Capitalism

*Professor James Q. Wilson*

Capitalism has won the economic battle around the world, but it is everywhere on the defensive with respect to the moral struggle for men's souls. We know it won the economic battle because a natural experiment was performed after the Second World War. A number of countries were selected – Vietnam, Korea, Germany and China – and cut into two pieces, with capitalism installed in one part and 'socialism' in the other. Capitalism won a resounding triumph. Except for a handful of professors, everyone now recognises that capitalism produces greater material abundance for more people than any other economic system ever invented.

The lasting challenge to capitalism is moral. Even Marx himself may have understood this, at least in his early years. This battle persists, because many people still believe that the economic gains produced by capitalism have been acquired at too high a price. The main critiques of capitalism are familiar to you. Let me mention four.

- (1) Capitalism produces excessive inequalities of income and wealth; the rich get richer, and, although the poor get less poor, the gap between the rich and the poor does not close.
- (2) Capitalism generates alienation; the worker works for someone else – the owner of the means of production – and is therefore deprived of the ownership of what he produces. The worker becomes a commodity, estranged from what he has produced and estranged from his fellow man, linked with the rest of society only by a cash nexus.
- (3) Capitalism produces environmental harm; because of its great success in wielding modern technology and science it has produced ever more sophisticated devices and chemicals that have poisoned our air and water.
- (4) Finally, capitalism causes materialism; we see a society built on a consumer culture in which people are obsessed with getting more and more, and where their wants are created for them by television.

Now I think that there are reasonable and, to me, convincing an-

**swers** to each of these criticisms. Let me mention what some of these answers may be, and then indicate why I think the problem of the morality of capitalism none the less persists.

First, *inequality*. Every social system produces inequality: if not inequality of wealth, then inequality of power or inequality of military **might**. We only have the choice of which kind of inequality we wish to subscribe to. Many nations have claimed to eliminate market-based inequalities, but they have done so only by creating non-market inequalities - a Soviet *nomenklatura*, a ruling military elite, an elaborate black market, or a set of non-cash perks. Inequality is an unavoidable feature of human life in organised societies, and capitalist inequality is the one that provides the most openings for upward mobility, because to rise in that hierarchy you do not need the largest sword or the most votes, you only need to accumulate economic resources.

Between unconstrained market inequality and the lesser inequality achieved by redistribution there is much to discuss and decide, and so the welfare-state debate proceeds. Participants in this debate sometimes forget that the only society in which such a debate can have much meaning is one that has produced wealth that can be redistributed, and acquired a government that will do so democratically - in short, a capitalist society.

*Alienation*. I think Karl **Marx** was wrong, it is not work that produces alienation, it is idleness. People by and large prefer work to nonwork, even though in many parts of the world society has done its best to encourage nonwork. In the United States, people when asked how they feel about their jobs almost uniformly say they like their work. Americans are gloomy about the decency of their culture and the justice of their politics; it may be one of the supreme ironies of our time that they are often more satisfied with their employer than with their community. If so, Marx has been stood squarely on his head.

Third, *the environment*. Environmental harm does **exist, and** technology is linked in important ways with producing this harm. But that harm is not disproportionately the result of capitalist activities. We know this, because when we tore down the Berlin wall in the early years of this decade, and peeked over that wall to see what lay behind it in a socialist state, we found a vast environmental toxic waste dump. In Eastern Europe and the former Soviet Union, governments had used their resources mindlessly and deposited the refuse egregiously all about the landscape.

**Václav Havel** explained why: a government that commands the economy will inevitably command the polity; given a commanding

position it will distort or destroy the former and corrupt or oppress the latter. And though environmental risks are a problem for capitalist societies, those problems are not nearly as great as they were in state controlled societies.

Finally, materialism. Yes, materialism is the result of economic progress, and yes, economic progress does come from **capitalism**. What is revealed by materialism, however, is not a corruption of the human soul but a revelation of one aspect of the human soul. On this subject I will have more to say in a moment.

Despite my answers to these common moral criticisms of capitalism, the criticism persists. It persists not only in the words of **Marx**, and **Marx's** few remaining followers (most of whom seem to be located on the campuses on large western universities). It exists even among the defenders of **capitalism**. The conventional defence of capitalism is that it is an economically impressive mechanism for distributing resources, and a politically useful way of preserving freedom, but it has no moral consequences.

Friedrich von Hayek, a defender of **capitalism**, wrote that 'in a free society it is neither desirable nor practicable that material rewards should be made generally to correspond to what men recognize as merit.' He thought that capitalism was a morally neutral tool for producing wealth; indeed, he resisted the idea that it might have moral significance, because he did not want it to occur to any government to try to claim that its moral significance could be improved by public action. Paul Johnson, the distinguished English historian and writer, has referred to capitalism's indifference to the notion of moral choices.

Even if you don't read **Marx** or Hayek or Johnson, you do watch television, and television contains the ultimate contemporary message. In my country, which produces much of the television seen around the world, every mystery story, virtually every cops and robbers story has the same lesson. In the last reel the villain is the man in the three piece suit with neatly trimmed hair who is driving a fancy automobile, and the hero is a young person wearing blue jeans and a tee-shirt (and, if it is **cold**, a leather **jacket**). **Never** mind that in reality it is the opposite that is almost invariably the case.

Television has captured the image of the capitalist as being the source of those conspiracies that afflict modern society, and that message, if not embraced by the public, is certainly welcomed by it. I do not think there is anywhere in the world where you can find a monument to capitalism. My wife and I recently visited Scotland, and discovered that even in the country that gave birth to the founder of capitalism

there is no monument to Adam Smith.

I have a different view about the relationship between capitalism and morality. It is certainly not the view of **Marx**, and it is not the view of Hayek or Johnson. My view is that capitalism has three relations to **morality**. The first is that it assumes the existence of a moral order; that point, I think, will be obvious to you and I will comment on it only briefly. Secondly I will argue a more controversial point: that capitalism in the long run actually strengthens that moral order, indeed that it improves people. Having said that, I will concede in my third point that capitalism, like all forms of social organisation, has its limits, and that those limits must be recognised and some restrictions placed on the activity that has brought us wealth.

First the assumptions on which capitalism rests: it requires at least two things of society. It requires trust and it requires a command of your own **instincts**. **Trust** must exist in a society for it to be a capitalist society because people who do not trust their neighbors, do not trust other groups, do not trust distant people, cannot trade with them; and, unable to trade with them, capitalism remains at the level of a bazaar **economy**. **That** is to say, a few people trading with hastily announced, verbal prices, negotiated to suit friends and raised to penalise enemies.

In any economic system, buying and selling occurs, but voluntary buying and selling on a large scale among strangers requires confidence in fair dealing that cannot depend on one party having much detailed knowledge about the other. Routinised exchanges present some of the same problems as a Prisoner's Dilemma, in which both parties have an incentive to cheat if they assume they will only play the game - or engage in the exchange - once.

The solution to the dilemma lies in repeating the game in conformity with this rule: do to the other party what he has just done to you ('tit for tat,' in Robert Axelrod's phrase), but make your first move a 'nice' one in order to encourage the other party to do the same. In some societies, mainly Western ones, this rule is enforced by contract law; in others, notably Eastern ones, by group affiliations. Capitalism takes advantage of this rule in order to create **large, permanent** markets among strangers that can operate without incessant recourse to **retribution**. **Without** that minimum level of trust, the possibility of capitalist accumulation disappears.

The central problem that Russia faces today is to produce a society that has that level of trust, so that capitalism, which now is in its primitive early stages, has a chance to flourish and bring wealth to the entire country. For this to happen public authorities must take steps.



They must define and defend private property laws. They must define and defend contracts and offer a means to settle disputes between the signatories of **contracts**. **Rules** against fraud and misrepresentation must be **enforced**. **Today** there is contract law but it is managed by the Russian **Mafia**. **There** are private property claims but they are managed by self-aggrandisement and the rules against fraud scarcely exist.

The other premise on which capitalism depends is self-command. Not only must you trust your fellow man, you must be able to trust your own instincts, and your own instincts are to consume today what is available today and to put aside nothing for tomorrow, whereas capitalism requires the opposite of **us**. **Adam Smith** in *The Wealth of Nations* understood that investment was required for capital to be accumulated, and that investment in turn required that some people be willing to postpone immediate gratification for the sake of later (and larger) benefits.

Smith did not explain why we should assume that the number of savers will be sufficient to produce the necessary investment. He observed that 'prodigality,' the result of a 'passion for present enjoyment,' will diminish the capital available for economic growth, and so it will be necessary for the 'frugal man' to save enough to spare the rest of us from the consequences of our own prodigality. Will this occur? Smith predicts that 'the profusion or imprudence of some' will be 'always more than compensated for by the frugality and good conduct of others.' Wealthy societies are those societies in which Smith's assumption about self-command turns out to be **true**. **Historians** have not yet fully explained why self-command arises.

People differ in their degree of self-command but are alike in the high regard in which they hold people who display self-command (provided the display is not excessive, as it is with personalities that are miserly or rigid). Self-command is, in short, regarded (up to a point) as a virtue, one that is essential to capitalism. The recent decline in the rate of **American** private savings corresponds to a period in which self-indulgence has been conspicuous. I have no idea what to make of this except to suggest that a complete understanding will almost surely require a cultural as well as economic analysis. If all that mattered were net yields on savings, the Japanese would not be saving anything: their banks pay very low interest rates, yet their customers save at **world-record** rates.

These are the assumptions upon which a capitalist order rests, and I think most people hearing them described will not dissent profoundly from this argument. But now the more controversial part of my

argument. My second point is that capitalism in the long run **strengthens** the moral **sensibilities**. It does so by sustaining a liberal social order, by sustaining and indeed creating criticism of capitalism itself, and by enhancing civility among citizens.

Capitalism is essential to liberalism - and by liberalism I mean the principles around which a free society is organised. It has become clear during the last half century that democratic regimes only flourish in capitalist societies. Not every nation with something approximating capitalism is democratic, but every nation that is democratic is to some significant degree **capitalist**. There are capitalist economies that exist in authoritarian states but they do not do very **well**. There is a relationship between democracy and capitalism that the defenders of democracy often overlook to their great disadvantage.

I think that the relationship rests upon two **principles**. The first is that capitalism requires free communication. In the long run you do not get ahead by having **secrets**. You may have a proprietary right in the product you have invented and are now marketing, but getting that product to the point where you can market it requires the freest exchange of scientific and technological information. No society that constrains in any meaningful way the distribution of that information can hope to catch up in the race for economic improvement.

Capitalism also has another advantage that was pointed out by the **late** great British anthropologist, Ernest **Gellner**, who died a year or two ago. Gellner in reflecting on the failure of European communism observed that no society can avoid finding a way to channel the desire men have to advance themselves. In traditional and in statist societies, the way to attain wealth is first to attain power, usually by force. But in market **societies**, '**production** becomes a better path to wealth than domination.'

Critics of capitalism argue that wealth confers power, and indeed it does, up to a point. Show people the road to wealth, status, or power, and they will rush down that road, and many will do some rather unattractive things along the way. But this is not a decisive criticism unless one supposes, fancifully, that there is some way to arrange human affairs so that the desire for advantage vanishes. The real choice is between becoming wealthy by first acquiring political or military power, or getting money directly without bothering with conquest or domination.

If it is in man's nature to seek domination over other men, there are really only two ways to make that domination work. One is military power, and that is the principle upon which domination existed from

the beginning of man's time on this earth to down about two hundred years ago, when it began to be set aside by another principle, namely the accumulation of wealth. Now you may feel that men should not try to dominate other men - although I do not see how you could believe this in Australia given the importance attached to sports. You may like to replace man's desire to dominate other men, and in a few cases it is prevented by religious conversion or a decent **temperament**. But as long as the instinct persists, you only have two choices, and if you choose to compete economically you will reduce the extent to which one group of men will **tyrannise** over another by the use of military might or political power.

Another way by which capitalism strengthens our moral sentiments is that it creates and empowers its own **critics**. When Daniel Bell published his famous essay on 'The Cultural Contradictions of Capitalism,' he argued that the bourgeois culture - **rational, pragmatic** and moral - that had created capitalism was now being destroyed by the success of capitalism. Capitalism created both a parvenu class of rich plutocrats and corporate climbers, and a counter-culture of critical intellectuals and disaffected youth; the latter began to have a field day exposing what they took to be the greed, hypocrisy and Philistinism of the former.

This is a theme first developed by Joseph Schumpeter, the great **Harvard** economist, in his 1947 book, *Capitalism, Socialism and Democracy*. It was a remarkable book because it begins with the proposition that Karl Marx got it exactly **wrong**. **Capitalism** will not be destroyed, he said, by its failures; it will be destroyed by its successes. Now I think he was wrong to say that capitalism will be destroyed, but he was right to point to the changes capitalism brings in the social and political order that will constitute an ever-growing, ever-larger challenge to the right of capitalism to exist.

The way they will do this is by creating and sustaining a class of intellectuals. Capitalism requires intellectuals. Business people support universities - especially, it would seem, those universities that devote much of their faculty's time to **attacking** business people. It supports them for a very good reason: capitalism understands the value of reason and knowledge. It understands the value of scientific inquiry. It knows that whatever the intellectuals may say on the cocktail party circuit or **speaking** on television programs or writing in quarterly journals, their general level of activity is essential to the dissemination of knowledge.

But by creating and sustaining an intellectual class it creates and sustains a group of people who **inevitably** will become critics of capitalism, just as they are critics of democracy, culture, and religion.

Intellectuals live in a world of artificial models that are designed in their mind to capture some part of reality and, unlike practical people, they think that those intellectual models in some cases actually describe reality. And when you have the view that the world ought to fit your model and you notice that it does not, you assume that there is something wrong with the world. Religious zealots are destroying your pure spiritual insights, government officials are contaminating your right to communicate, and capitalists are sustaining a gross consumer-oriented materialist society which cannot support intellectuals at the level to which they are entitled.

But this process of creating and sustaining your own critics is unique to **capitalism**. **There** is no other economic order that does this. All other economic orders have to be overthrown either by military rebellion or by internal collapse because they do not accommodate themselves to critics.

It is also the case that capitalism makes it easier to deal with environmental problems. Environmental problems exist. Air is free; we consume air without charge, we emit pollutants back into the air, often without charge. And if something is free people will consume more of it than they really need, or at least much more than they would if they had to pay for it. Since we have found no way to endow clean air with property rights, we do not know how to limit this except by the use of an external authority that will put some restrictions on it.

To compel people who are engaged in production and exchange to internalise all of their costs without destroying production and **ex**-change, one must be able to make proposals to people who do not want to hear them, induce action among people who do not want to act, and monitor performance by people who do not like monitors - and do all of this only to the extent that the gains in human welfare are purchased at an acceptable cost. No regime will make this result certain, but only democratic capitalist regimes make it at all **possible**. **Why?** It is not that capitalists believe in the environment or have a wish to improve the world. It is because they are part of a system in which the world must be improved if they are to survive.

Capitalism brings three advantages to the environmental task:

- (i) It creates and maintains a private sphere of action. A private sphere of action makes capitalism possible because you can operate free of government **control**. **But** by maintaining a private sphere you also provide a protected place for people to stand who wish to make controversial proposals. You create a world in which the critics of capitalism - those who wish to see

capitalism restrained in order to protect the environment - have an opportunity to move. No such world existed for them in the Soviet Union, and no such world exists for them today in the People's Republic of China. The absence of a private sphere means the absence of an environmental ethic.

- (ii) Secondly, capitalism produces prosperity, and prosperity changes the minds of people, especially young people. It endows them what we in the social science business **call** in our professional journals, *post-materialist* or post-industrial goals. That is a fancy way of saying that when society becomes rich enough for everybody to be fed and where no-one has to struggle day and night to put food on their table, we begin to think of other things we can use resources for. Those other things include taking care of animals, protecting the environment, preserving land and the like. The prosperity induced by capitalism produces of necessity an environmental movement. How that environmental movement is managed of course is a very real question; sometimes it is managed very badly, other times it is managed reasonably well. Environmental policies in capitalist systems will vary greatly - from the inconsequential through the prudent to the loony - but they will scarcely exist at all in non-capitalist ones.
- (iii) The final thing capitalism brings to this task is that it creates firms that can be **regulated**. You may think that this is a trivial statement. You all know that business firms are regulated - sometimes to the advantage of the firm, sometimes to its **disadvantage**. But I don't think you realise the importance of this fact. Consider the alternative. Suppose the government ran everything. What would be regulated? The main reason why Eastern Europe was a vast toxic waste dump, and why many parts of China are becoming a vast toxic waste dump, is because the government owns the enterprises and one government agency does not - cannot - regulate another government agency. This is because neither the regulator nor the regulatee has any personal motives to accept **regulation**. But they can regulate firms, and so when firms are producing wealth and people decide that the distribution of wealth ought to be made to accord to an environmental ethic, capitalism makes that possible.

My final argument about how capitalism strengthens morality has to do with the rise of civility. This is a slow process; it does not occur overnight. The beginnings of capitalist enterprise in eighteenth and

nineteenth century England and America often do not reveal persons going out of their way to be kind to others. But as time persists the obligation for kindness grows. Now many of you may find this a dubious statement; after all, you would argue, capitalism is based on the principle of self-interest. How can self-interest lead one to be more civil?

It is quite true that capitalism is based on self-interest. So are all other economic **systems**. The great advantage of capitalism, first stated by **Max Weber**, the German sociologist, is that only capitalism disciplines self-interest. Only capitalism requires that entrepreneurs worry about what their employees might do - because they cannot command their employees to perform; worry about what their customers might do - because they cannot command their customers to buy; worry about what their investors might do - because they cannot command their investors to invest. Capitalism is the only economic system that takes self-interest and puts it in a position in which it is moderated by the logic of the economic system.

As a consequence, capitalist style self-interest encourages the emergence of civility. Let me give you some examples. Many of you may recall stories about the old Soviet Union. In Moscow, you tried to shop at a department store (there was only one department store), or to eat in a restaurant (there were only a few, and the government owned all of them). Everybody who did this brought back stories about how the help in the department store and the waiters in the restaurants were inattentive to the needs of the customers. Communist managers never took customers as seriously as they took **commissars**. But if you haven't been to Moscow - and I have not - you have examples much closer to home.

In the case of the United States, take airports. Until recently the only way to eat a meal in an airport was to sit down in a cafeteria that was licensed by the airport to supply on a monopoly basis all of the food consumed in the airport. Of course you could leave the airport, but the airport was ten miles from the city, so there was no other place to **go**. The airport purveyor of food had no corporate name that you would recognise, it was called something like **'Host'**. The thing to know about 'Host' was that it didn't host you; you went in and found bad food served by indifferent or surly waiters.

Then a light bulb went on in American airport management, and they said 'Let's license our food providing service to competitors that have national reputations to **protect**.' Now you go into an American airport, not unlike the airports here in Australia, and you can choose between McDonald's, Burger **King**, **Taco Bell** and Starbucks. Each of these

companies knows that how you judge them in the airport will reflect how you evaluate them off the airport. Capitalism requires people to treat customers as if they matter. As any economist will tell you, a firm's reputation has a capital value (it is sometimes measured on the balance sheet as goodwill), and so business executives who wish to **maximise** that value will devote a great deal of effort to inculcating a service ethic in their employees.

You will see a problem in this **argument**. 'Well this is just pretence, isn't it? I mean, of course McDonald's, Burger King and the like will treat you as if you matter, but do you really matter? Isn't this just a charade thrown up to get your three dollars and  **fifty** cents for a Big Mac?'

To answer that question you have to ask **yourself**, 'How is human character **formed**?' The best answer was given by **Aristotle** two and a half millennia ago. He said that human character was formed by a process of **habituation**. You did not become a good person by listening to a moving sermon and memorising it, or reading a beautiful poem and having it embedded firmly in your **soul**. You became a good person because your parents and your friends told you that you must do the right thing in countless small ways every day, and you built up the habit of doing a good thing, under the guidance of the people who already knew what a good thing was.

Now there is little reason to suppose that habituation ends with adulthood or cannot occur outside the family. I have to appeal to your own intuition here, because I can present no evidence. But suppose everybody who delivered food in airports still worked for **Host**. Would their character off the job be better than would be the character of the same people, **working** for essentially the same wages, but **working** now for McDonald's, Burger King, Starbucks or Taco Bell, and being told by management to speak politely to every **customer**, 'Good morning Ma'am,' 'Good morning Sir,' 'Thank you Ma'am,' 'Thank you Sir,' 'Will there be anything else Ma'am?', 'Anything else Sir?' Employees must do that eight hours a day, five days a week. My suggestion is that that will have an impact on human character, just as parents train their children by means of constant small reminders and an insistence on routine observances.

When Adam Smith wrote that the 'understandings of the greater part of men are necessarily formed by their ordinary **employments**,' he was worrying about the harmful effect on the mind of dull and exhausting labor. But the shortened work day and the use of machinery have made this effect much less likely than it was in the eighteenth century. Smith suggested that the increased division of labor would turn most

workers into unhappy copies of Charlie Chaplin in *Modern Times*, but the advent of modern technology has relieved many workers of precisely those mindlessly repetitive tasks that he supposed would destroy the human **spirit**. **Today** it may be that it is the manners of people that are enhanced by their daily employment.

People, of course, know the difference between a profit-making firm on one hand and a child-rearing family or a soul-comforting church on the other. They have different expectations of each. But no economist should suppose that since firms are about profits, that is all they are about, any more than we should imagine that because families are about sex that is all they are about.

There is **still** an American institution that has not yet embraced this philosophy of mine. It is Disneyland. I don't mean to criticise Disneyland; on the contrary, along with jazz music and the United States Constitution, I regard it as one of the three greatest organisational accomplishments of **American** culture in the last 200 years. I adore Disneyland - I take my children and my grandchildren there every chance I get - but it has one problem. Disneyland sells its own food. No matter which restaurant you go to, the Mexican restaurant, the Italian restaurant, the French restaurant, the seafood **restaurant**, it's **Disneyland food**. The food is awful. It has not occurred to them to license out food distribution to companies that have a personal, self-interested stake in supplying good food and thus in teaching their employees to do better.

Capitalism promotes civility in another way: it makes prejudice too expensive to afford. The great Nobel laureate economist, Gary Becker pointed this out in a book written 40 years ago. People didn't take it seriously then but I think we must take it seriously now. If you say to yourself that you will not serve or employ blacks, **or Turks**, or Cypriots, or whatever group your society happens to be hostile to, you will reduce the number of customers you can reach and the number of potential employees you can hire. This has the effect of shrinking your market and raising the wages of those employees whom you can hire.

Now in some environments, such as in the American south until the **1960s**, it was possible to maintain segregation in public facilities, because the legal system and its surrounding culture supported segregation so strongly that a businessperson had no chance. Embedded in a thoroughly racist community, capitalism could easily exist side by side with prejudice, because there are no competitive disadvantages to acting on the basis of prejudice. But once that legal and cultural system began to crack, once there were a few opportunities for hiring people on a non-discriminatory basis or serving customers on a **non-discrimi-**



natory **basis**, **firms** changed **dramatically**. The nationwide firms changed the fastest, because they realised that capitalism is incompatible with prejudice.

None of this is to deny the important role played by law, court order, and the example of desegregated government agencies. But imagine rapid desegregation occurring if only law were operating. It would be slow, uneven, and painful. Public schools desegregated more slowly than hotels and restaurants, not only because white parents cared more about whom their children went to school with than about who was in the next hotel room or at the next **café** table, but also because school authorities lacked any market incentive to admit more or different pupils. Indeed, a statist economy will not only resist desegregation, it will allocate economic benefits - franchises, licenses, credit - precisely on the basis of political, class, ethnic or racial status. It is capitalism that really requires a cosmopolitan attitude.

Finally, I think that capitalism enhances civility by promoting self-command - not invariably, not routinely, but often **enough**. You may have an especially rich executive suite equipped with two helicopters and two Lear jets, and you may take long vacations and you may accumulate large salaries. But somebody out there is going to notice it. There will be a hostile takeover attempt, and the first thing they will promise to do is to sell the helicopters and the Lear jets and reduce the size of your office, to deliver more value to the shareholders. It does not happen automatically, and it does not happen in every case, but it happens often enough so that executives contemplating their own benefits **realise** that somebody is looking over their shoulder.

Capitalism creates privilege; socialism creates privilege; mercantilism creates privilege; primitivism creates privilege. Men and women everywhere will seek advantage, grasp power, and maintain hierarchies. But to the extent that a society is capitalist it is more likely than its alternatives to sustain challenges to privilege.

These are the ways in which, in my view, capitalism enhances **morality**. **There** are limits to this, limits that exist in any social or economic system. Every human activity has costs (it was a defender of capitalism, after all, who reminded us that there is no such thing as a free lunch). We know that capitalism left unattended can produce monopoly or achieve privileged political positions. Adam Smith argued against this in 1776 in *The Wealth of Nations*. We also know that capitalism, like all economic **systems**, **will** consume external resources boundlessly if it doesn't have to pay for them. So laws have to be put in place to block collusion and **fraud** and monopoly and the unfettered use of scarce

natural resources. However, I think that democratic politics is keenly aware of the opportunities to do this.

Having said all of this let me conclude with the following note. Capitalism, despite my arguments, perhaps indeed because of my arguments, will retain its critics. It will always be a system under attack. There will never be a monument built to it. **Adam Smith** will remain a name in Scotland with probably no statue erected to **him**. **And** why? There are at least two reasons that occur to me.

One is that people prefer equality to liberty. This is an **observation** Alexis de Tocqueville made about the United States in the **1830s**, and I think it is even more true today. Americans, Australians and Englishmen have fought to defend liberty, but only when it was clearly **challenged**. **The** rest of the time liberty is something that works to the advantage of small dissident groups, reactionaries or radicals. We do not live and breathe a desire to see our personal liberty maintained. But equality, ah well! **If** you can reduce the gap between me and my fellow man, by raising me up or by pulling him down, that I can see as a continual and constant benefit. And as a result, no matter who is in office, whether it is **Margaret Thatcher** or Ronald Reagan or their deepest critics, the share of public resources that go from the private sector to the public sector continually increases in all industrialised nations.

The other reason, which is perhaps more compelling in the long run, is that capitalism reveals all sides of human **nature**. **When** you allow people to produce what they want, some will produce things that we don't **like**, **and** others will consume things that we don't **like**. **We** will get from Hollywood trashy **movies**. **We** will get from the media tabloid **journalism**. **We** will get from the pharmaceutical business feel-good drugs. We will get from music composers self-indulgent music. We will get from our children idiotic adolescent dress with spiked purple hair knobs. There is an enormous temptation to say that these prices we pay are too high.

But this is human nature revealing itself, and human nature is a mixed **bag**. **We** have beautiful instincts, and we have base **instincts**. **We** like good things and we also like trashy things. Kenneth Minogue, who teaches politics at the London School of Economics, once **said**, '**Capitalism** is what happens when you leave people alone.' To which I would only **add**, '**What** you see is what you get.'

# Vote of Thanks

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**O**nce again, we've been privileged to have at the Bonython Lecture a marvellous address on a topic of relevance and interest. Alan was **kind** enough to refer to me as an intellectual giant. I think when you see the record of James **Q. Wilson**, you hear him present, and you realise the breadth and depth of what he studies, what he thinks and what he writes, his claims are far greater than mine will ever be as a simple financial economist.

I suppose if I had to write another title for his speech tonight it would be 'Capitalism - the good, the bad and the ugly.' I think sometimes we do get a bit **blasé** about the success we all know comes from capitalism, and we forget just how vulnerable we are, and especially about the link between capitalism and democracy. In fact, capitalism is important to democracy, and vice versa. It's incumbent upon all capitalists, managers, shareholders and others, not only to defend capitalism, but to participate in and to support the creation of knowledge and the creation of public policy.

So I would take a lot out of what Professor Wilson told us tonight. It made me sit back and think more about what we're about in society, what the role of capitalism is in the genuine creation of a better future. So would you all join with me please in **thanking** James **Q. Wilson** for a marvellous presentation.

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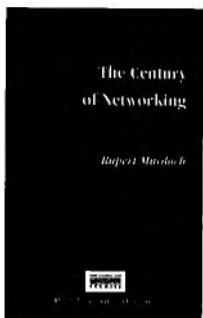
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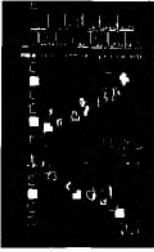
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James Q. Wilson

Capitalism is winning the economic battle all over the world. The collapse of socialism has left it without serious challenge as a wealth-creating system. But moral criticism of capitalism continues. Even its defenders often deny that it has any moral foundation, or worry about whether its success puts important moral values in jeopardy.

James Q. Wilson believes that the moral concerns about capitalism are unfounded. He argues that capitalism depends upon important moral values for its success, and in its turn helps to reinforce those values. He also explains that one of the virtues of capitalism is the way it empowers its critics. Only capitalism allows institutions to develop by which problems can be identified and corrected. Professor Wilson admits that we may not like all of the things capitalism produces, but he argues that this is just human nature revealing itself – capitalism is the system that lets people produce what they want.

James Q. Wilson was raised in Long Beach, California, and educated at the University of Redlands (AB, 1952) and the University of Chicago (PhD, 1959). He has also received honorary degrees from six universities. He spent 26 years as Professor of Government at Harvard University, and in 1985 was appointed James Collins Professor of Management and Public Policy at the University of California at Los Angeles. He has advised four U.S. presidents on crime, drug abuse and education, and has served on a number of national commissions concerned with public policy. Professor Wilson is most famous for the 'Broken Windows' theory of crime, developed in a paper written jointly with George Kelling in 1982. He is also the author or co-author of fourteen books, including *The Moral Sense*, *Bureaucracy*, *Thinking About Crime*, and *On Character*, a collection of essays on crime and civility. His most recent book is *Moral Judgement: Law, Science and Personal Responsibility* (1997).

The John Bonython Lecture Series was inaugurated by the Centre for Independent Studies in 1984 to honour the founding Chairman of its Board of Trustees. Each year the Centre sponsors a lecture to examine the relationship between individuals and the economic, social and political forces that make up a free society. The lectures are published as part of the CIS Occasional Papers Series.

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