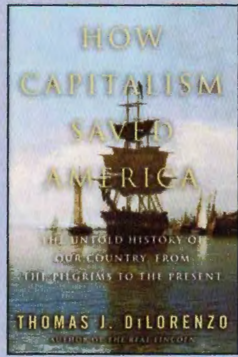
Capital Ideas

BY LAURENCE M. VANCE

What is the underlying cause of economic prosperity? What is the solution to America's economic problems? What is it that will keep America from becoming a full-fledged socialistic welfare state like much of Europe? What do we need more of in this country to help the economy? What accounts for the periods of tremendous economic development in American history? How can we increase economic growth in the future? According to Thomas J. DiLorenzo, professor of economics in the Sellinger School of Business and Management at Loyola College in Maryland, the answer to all these questions is capitalism.

Although he is an economist, Professor DiLorenzo is known to most readers of this publication for his historical gifts, most recently seen in his book *The Real Lincoln.* His new book, *How Capitalism Saved America: The Untold History of Our Country, from the Pilgrims to the Present,* exceeds even his Lincoln book in destroying the myths of American history propagated at most colleges and universities today.

The title of the book may initially seem to be an exercise in hyperbole, but such is not the case. *How Capitalism Saved America* is indeed the untold history of our country. After a brief introduction and two very crucial introductory chapters on the nature of capitalism and the perpetrators of anti-capitalism, DiLorenzo takes us through nine chapters of American history—from the Pilgrims to the recent California energy "crisis"—and shows "how, from the very beginning, capitalism has been vital to America's growth, and how excessive government interference in the economy has only exacerbated economic problems and stifled growth." Although the book is written chronologically, any of these nine chapters can be read independently. However, only one of them is necessary to see that the book's title is not an overstatement.



How Capitalism Saved America: The Untold History of Our Country, from the Pilgrims to the Present
by Thomas J. DiLorenzo; New York: Crown Forum, 2004, 295 pages, hardback, $25.95.

Although this is a book about capitalism, it is not a book on economics. As an economist, DiLorenzo is naturally quite at home when he discusses in the book the various economic concepts that are sometimes required in a discourse on capitalism. But because these concepts are all explained in layman's terms, and are only introduced when necessary, no prior knowledge of economics is required.

Because he "hoped that it would help in his crusade to denigrate the system of private property and free enterprise and promote socialism," Karl Marx coined the term *capitalism.* It is therefore no surprise that capitalism has been falsely thought to benefit only capitalists and the rich while exploiting workers and the poor. DiLorenzo dismisses as Marxist propaganda the idea that capitalism is "a zero-sum game in which 'somebody wins, somebody loses.'" Instead, "Capitalism succeeds precisely because free exchange is mutually advantageous." And not only does it succeed, it is "the source of civilizations and human progress." Capitalism has "brought to the masses products and services that were once considered luxuries available only to the rich." Capitalism is not only "the best-known source of upward economic mobility," it "actually reduces income inequalities within a nation." In short, capitalism alleviates poverty, raises living standards, expands economic opportunity, and enables scores of millions to live longer, healthier, and more peaceful lives.

DiLorenzo makes great claims for capitalism. But consider the alternative: "The more regulations, controls, taxes, government-run industries, protectionism, and other forms of interventionism that exist, the poorer a country will be." Why then is capitalism blamed for causing monopolies, harming consumers, endangering workers, damaging the environment, causing instability, exploiting the Third World, breeding discrimination, and causing war? Why does "a careful review of our nation's history" reveal "a long series of myths that demonize capitalism"? DiLorenzo believes that because there is "a widespread misunderstanding of what capitalism is, our leaders—and also much of the general public—incorrectly blame capitalism for any economic problems we face."

The author spares no one in showing the tremendous anti-capitalist bias in existence today: the entertainment industry, universities, intellectuals, private foundations, journalists, radio and television personalities, columnists, government regulators and agencies, environmentalists, politicians, egalitarians, ministers, priests, religious leaders. Indeed, even "most businesspeople are not even capitalists." DiLorenzo indicts large corporations, not because they are large or because they are corporations, but because "many corporations support interventionist or anti-capitalist policies like trade protectionism or corporate welfare because they hope to benefit from the policies at everyone else's expense."

DiLorenzo carefully distinguishes between free-market capitalism and state capitalism. Free-market capitalism—"true capitalism"—is based on secure private property rights, the division of labor, social cooperation, freedom of contract, freedom of association, and voluntary exchange on the free market. It is characterized by an absence of "excessive government regulation and taxation." DiLorenzo considers private property "the most important distinguishing feature of capitalism." In a system of private property, "individuals are free to choose different occupations, consumption patterns, or lifestyles as long as they don't interfere with the freedom of others to do the same." The absence of "property rights protections is a major cause of world poverty." Another theme that appears throughout the book is the crucial role of the entrepreneur in a capitalist society.

True to the book's subtitle, DiLorenzo begins in chapter three with the Pilgrims. Why did so many of the early American settlers starve? They adopted communal ownership of land and property. The absence of property rights—one of DiLorenzo's cornerstones of capitalism—destroys the work ethic and leads ultimately to starvation. After the securing of private property rights, the settlers began trading with the Indians and exploiting their comparative advantages.

In chapter four, "America's Capitalist Revolt," DiLorenzo examines the economic issues behind the Declaration of Independence and the Constitution. He maintains that one must understand the economic context within which the Declaration of Independence was written. King George "wanted to forcefully impose British mercantilism on the colonies." Beginning with the Molasses Act of 1733 and ending with the Tea Act of 1773, DiLorenzo recounts, from a perspective that most people missed in high school, all the egregious attempts of Great Britain to tax and restrict the trade of the colonists.

One of the most common objections to the ideal of a free society based completely on private property is the matter of transportation—railroads, canals, and roads. In "Highways of Capitalism" DiLorenzo tackles this concern head on. The fact is simply that "most roads and canals were *privately* financed in the nineteenth century." Because economics is the main decision-making criterion in private road building and politics is the main decision-making criterion in government road building, "private road building is *inherently* more efficient than government-run road building." DiLorenzo labels the calls for tax-funded transportation projects for what they were: "corporate welfare."

The next myth exploded in *How Capitalism Saved America* is that capitalism exploits the working class. The author considers this to be one of the most pervasive and pernicious myths about capitalism. The truth is just the opposite: "Capitalism has continually improved the lot of the working class." Capitalism results in more leisure time, provides new, better, and cheaper goods, and increases workplace safety, productivity, and wages. DiLorenzo defends "child labor" and "sweatshops" with an argument that should be quite obvious: They were better than the alternatives of malnutrition, starvation, prostitution, begging, and stealing. It is the increased productivity per adult worker brought about by capitalism that eliminates the need for child labor. The myth that labor unions are responsible for the long-term rise in wages and living standards in America is similarly demolished.

The exploits of the heroic entrepreneurs falsely referred to as "robber barons" merits a whole chapter. Focusing on James J. Hill (railroads), John D. Rockefeller (oil), and Cornelius Vanderbilt (steamships), DiLorenzo concludes that these men were heroes because they improved the lives of millions of consumers, employed thousands of people, created entire cities, pioneered efficient management techniques, and donated hundreds of millions of dollars to charities. He carefully distinguishes between what he calls a "market entrepreneur" and a "political entrepreneur." A market entrepreneur succeeds by pleasing his customers; a political entrepreneur succeeds by influencing the government.

In "Antitrust Myths" DiLorenzo refutes "the story of how capitalism supposedly became monopolistic in the late nineteenth century, and how it was brought under control by antitrust regulation." Indeed, he considers "the whole story of antitrust" to be a myth. Rather than being monopolies that restricted output to drive up prices, the late-nineteenth-century trusts "were expanding production and dropping prices." The Sherman Antitrust Act (1890) was in reality "designed to protect incompetent businesses from superior competition, not to protect consumers from monopoly." Why then did many businesses support the Sherman Act? The same reason that many corporations today support interventionist and anti-capitalist policies: They wanted to use the power of government to hurt their competitors.

Chapter nine is devoted to the Great Depression. Here our author disposes of two myths: that the Great Depression was caused by the breakdown of capitalism and that government intervention was the remedy to save it. DiLorenzo explains in simple terms what caused the recession that Herbert Hoover turned into the Great Depression. Hoover was "an FDR-style interventionist" with "a dangerously poor grasp of economics" who "did just about everything wrong that could have been done." Hoover's misguided policies and socialistic programs attacked free market capitalism and exacerbated the Great Depression.

Of special concern to the author is the Smoot-Hawley Tariff—signed into law by President Hoover despite a letter of protest signed by more than a thousand economists. Under what DiLorenzo terms the "Smoot-Hawley-Hoover tariff," "The average tariff rate soared to 59.1 percent, the highest in American history." The result of these increased tariffs—the hallmark of Republican economic policy since Lincoln—was a trade war that dried up the import of many items completely, brought about retaliatory tariffs, deepened the Depression, and contributed to the rise of Japan's militaristic nationalism.

An even bigger myth than the cause of and remedy for the Great Depression is that FDR's economic policies got us out of the Great Depression. DiLorenzo calls this the "biggest economic myth of the twentieth century," and appropriately makes "How the New Deal Crippled Capitalism" his longest chapter. Roosevelt's grasp of economics was even less than that of Hoover's. Because he believed that low prices caused the Depression, FDR paid farmers to burn their crops and slaughter their livestock. This was followed by paying farmers not to grow crops or raise livestock. Roosevelt's alphabet soup of new federal programs and agencies (NRA, NIRA, AAA, CCC, WPA, TVA, Social Security, Fair Labor Standards Act, National Labor Relations Act, etc.) destroyed jobs and hindered recovery. FDR's "cure" for the economy was government spending on make-work projects; his "cure" for unemployment was to conscript millions of men and send them to an overseas war. So what does DiLorenzo credit with finally ending the Great Depression? Naturally, the answer is capitalism. Economic prosperity was not restored until 1947—after the scaling back of government spending, intervention, and regulation.

The last chapter before the book's conclusion deals with events most of us have lived through: the energy crisis. Here DiLorenzo takes up the regulation and deregulation of oil, natural gas, and electricity. The "collaboration" between government and industry during World War I was not ended after the war. The shortage of gasoline in the early 1970s was not just the result of the OPEC oil embargo. DiLorenzo also faults increased regulations and price controls. He also views the natural gas "crisis" as government-induced, and credits deregulation of oil and natural gas with ending the energy crisis. He also explains how regulation and not deregulation was the cause of California's recent electric power crisis.

The book concludes with a look at "the never-ending war on capitalism" by government intervention, regulations, agencies, and bureaucrats. DiLorenzo also includes university professors, politicians, and lawyers in his indictment. "American universities devote an inordinate amount of time and resources to teach potential business leaders not how to be capitalists but how to be corporate bureaucrats." Politicians "view businesses as cash cows to be plundered for the benefit of their own political careers." "Lawyers now have incentives to spend their lives digging up cases and evidence against corporations because some consumers stupidly misused their products."

DiLorenzo also briefly reviews three anti-capitalist but best-selling books: Eric