

Thoughts on the virtues of capitalism



Your Turn

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Guest columnist

As America marks its 250th anniversary, another milestone is worth noting: 250 years since Adam Smith published "The Wealth of Nations." Smith famously argued that societies prosper when individuals have the liberty to pursue their own interests through free markets rather than relying on governments to determine what should be produced and consumed.

Smith's proposition has significant personal relevance. My parents emigrated to the United States due to the limits placed on liberty by their native country of Yugoslavia during four-decades of communist/socialist rule and the resulting failure of that nation's economic system to deliver basic goods for its citizens.

However, Adam Smith was not simply the founder of modern-day economics. He was first and foremost a moral philosopher. One of his more provocative ideas is especially relevant today: Free markets not only make societies more prosperous, they encourage people to behave more ethically.

How can a system based on self-interest and competition do that? Smith believed that markets foster repeat interaction. When people expect to do business with one another repeatedly, reputation matters. Honesty, reliability and cooperation become valuable not simply as virtues but as essential ingredients for successful exchange.

Take the case of my driving behavior. My driving improved more when visiting Dartmouth College as a faculty member in 1995 than when returning to University of Southern California in Los Angeles, the location of my first teaching job after graduate school.

Located, as Dartmouth is, in the small community of Hanover, New Hampshire, I was careful not to cut off other motorists at intersections there for fear of running into them elsewhere. My fellow Hanover drivers, that is, were more likely to be members of my Dartmouth community (faculty, staff or students). By contrast, the odds of ever again running into fellow Los Angeles motorists were minuscule.

Free markets, based on clearly defined and enforced private property rights and the liberty of individuals to pursue their interests, maximize the opportunities for repeat interaction across time, products, places and people. By creating the broadest possible opportunities for repeat interaction and thereby a future, free markets have an edge, relative to other economic systems, when it comes to promoting prosperity, integ-



Beyond material gains, there are the moral benefits in capitalism. GETTY IMAGES

ity and other cooperative virtues – especially when there is a means to track the behavior of participants across their various interactions.

Witness how eBay has grown annual sales to over \$80 billion by 2025 since its inception in 1995. The growth has been aided by a rating system at each transaction's close whereby buyers evaluate sellers. The feedback system is widely employed (in over half of all transactions), and more than 99 percent of feedback on sellers is positive. Sellers have an important means, through the rating system, to build a reputation that has value to them in future transactions. Consumers, in turn, make better informed purchasing decisions based on the accumulated historical performance data about sellers.

While questions continually emerge about the merits of capitalism relative to other economic systems, it is helpful to remember the virtues of the economic system that our nation's founders set in motion 250 years ago and were con-

temporarily noted by the classical economics founder Adam Smith. These virtues are material and moral.

Beyond the material benefits, there are the moral benefits of the economic system upon which our Republic is based and that were noted by Smith. Nothing better proves this point than the extent to which alternative economic systems involving more top-down, autocratic approaches have harmed their own citizens and the citizens of other lands.

Beyond the failure of Yugoslavia's system of government to deliver the economic goods desired by citizens, my parents emigrated to the United States for the greater liberties and physical safety that they would enjoy and in the belief that they would be treated more cooperatively and fairly by their fellow citizens and political representatives in this land.

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