

A close-up photograph of a computer keyboard. The central focus is a large, rectangular key that is a vibrant green color. On this key, the word "Capitalism" is printed in a white, sans-serif font, slanted slightly upwards to the right. The surrounding keys are dark grey or black, with some white markings visible on the keys to the right. The lighting is dramatic, highlighting the texture of the key and the sharp edges of the keyboard.

KEYING IN

TO...

To some, capitalism is a dirty word.

But **EAMONN BUTLER** begs to differ.

In this summary of his latest IEA book, Eamonn explains what capitalism is, assesses its achievements and its weaknesses, and demonstrates how it has brought billions of people out of abject poverty...

The word ‘capitalism’ was coined by its opponents, and even today, most of what is written about it is ill-motivated.

You can read the Oxford University Press *Capitalism: A Very Short Introduction*, for instance, and come away no wiser about what capitalism is (though better informed on Marxist history); while the Wikipedia entry on *Capitalism* is a mishmash of things that have little to do with the idea at all.

So when ‘capitalism’ is mentioned, most people think of greed, profiteering, cronyism, exploitation, and probably subsistence wages and dark satanic mills too—all baggage loaded onto capitalism by its critics. Hence the need for a book that explains, simply, what capitalism is, what drives it, its achievements and its weaknesses.

The idea of capitalism is actually simple. The word has two parts: capital and ism. Capital is simply the various things we accumulate and use in order to make our production easier. And ism means that this is a general way of life.

Routinely, for example, we make tools and machines to enable us to produce what we want better, cheaper and with less effort. And we have been hugely successful at it.

In just 300 years, capitalism’s power looms, production lines and farm machinery have made clothing, transport and food vastly cheaper and more accessible. Not even the richest 18th Century monarch could have dreamt of the functionality we now all have

in our pocket smartphone.

But *capital* is not just tools and machines. There are many other forms: the *infrastructure* that moves us and our products around; the *markets* that allow us to exchange what we produce; the *financial capital* that finances it all; and the *networks* that enable us to collaborate.

There is our *cultural capital* – things like the *justice system* that protects our *property* rights and enables us to invest and prosper without our goods being stolen.

And perhaps the most important of all is *human capital* – all the education, training and personal traits that we cultivate to make

techniques. Perhaps you save money from your regular income to build up your *financial capital* so that you can grasp new opportunities when they arise.

Capitalism’s critics imagine that having capital is like having a tree that provides you with an endless supply of fruit for no labour, suggesting that capital owners inevitably get richer and richer. Hardly. Just like a fruit tree, capital requires work and expense. It has to be protected, and nurtured, and maintained. When its yield falls it may need to be pruned or even replaced.

Moreover, when creating capital, you face *risk* and *uncertainty*: the uncertainty,

CAPITAL IS NOT SOMETHING OWNED AND CONTROLLED BY A FEW ... WE ALL OWN CAPITAL – FROM OUR SAVINGS TO OUR SKILLS

ourselves more useful, productive citizens.

That means capital is not something owned and controlled by a few. We all own capital – from our savings to our skills. It is remarkably democratic.

And honest. You do not acquire capital by stealing it from others: respect for people’s property is fundamental to capitalism. You acquire capital by *creating* it.

To do that, you have to forgo consumption.

Perhaps you spend less time working to produce things to make time for building a tool or machine or network that will help you produce those same things better and more easily.

Perhaps you take time off for training to learn new

for example, about how much demand there will be for what it produces, and the risk that your investment decision was a catastrophic mistake.

Capital can also be lost very easily. It can be stolen (e.g. your song track being pirated) or destroyed by fire, flood, warfare, neglect and much else.

It can be made useless by new laws and regulations. It can be eroded by taxes on it. It can be lost (and often is) through profligacy: a successful business can be ruined by bad management or by the owners depleting its capital by taking out too much income.

Another thing that critics overlook is that capital is not a homogeneous thing but a complicated network of



diverse things.

And those different kinds of capital all have to come together if they are going to be effective at producing more and better things for our enjoyment.

A car factory, for example, relies on countless specialist suppliers to produce the parts it needs – their capital equipment turning out the

higher taxes on fuel, or new safety regulations) can upset the whole network.

The economic busts and recessions that invariably follow after central banks create false booms through cheap credit and the oversupply of money, can destroy the capital structure of not just a few firms but the whole economy. And while some capital goods

Capitalism is a moral system. It allows millions of people to resolve their different, often conflicting, interests peacefully and productively.

It does not rely on the false promise of 'common interest' being agreed. Nor does it rely on force to achieve its ambitions, but on *voluntary* exchange.

It creates value, and private owners nurture and maintain capital better than distant public institutions.

Contrary to popular assumptions, it even produces more equal societies.

And while 70 years of socialism had little impact on world poverty, a mere 30 years of trade globalisation has brought around two billion people out of abject poverty•

Eamonn Butler

Director

Adam Smith Institute

eamonn@adamsmith.org

CAPITALISM IS A MORAL SYSTEM... IT ALLOWS MILLIONS OF PEOPLE TO RESOLVE THEIR DIFFERENT, OFTEN CONFLICTING, INTERESTS PEACEFULLY AND PRODUCTIVELY

right things at the right times to feed the carmaker's production lines. It will rely on the distribution firms that get the parts to the factory on time, and the finished cars to the dealers on time.

It even relies on the network of fuel retailers and garage mechanics that customers need to keep their cars on the road. It is a hugely complicated *capital structure*.

It is a fragile structure, too. Changes in customers' tastes and in public policy (e.g.

can be re-used for other functions, much purpose-built equipment has only scrap value.

FOR MORE

An Introduction to Capitalism is available for **FREE DOWNLOAD** at

iea.org.uk/publications/an-introduction-to-capitalism

Eamonn's latest IEA book *101 Classical Liberal Thinkers* will be released later this year.

