IDEAS ON LIBERTY
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Capitalism Is a Government Project?

It Just Ain't So!

As readers of *Ideas on Liberty* all know, politics cannot always be analyzed in simple left-right terms. But professional pundits like to choose up sides, with the "liberal" commentators traditionally being critical of capitalism and the "conservative" commentators supporting it.

Lately, though, there's been a disturbing amount of anti-free-market opining from the conservative team. Some writers for *National Review* and *The Weekly Standard* have contributed to this, but the conservative with the highest profile and greatest exposure (and greatest mainstream credibility), George F. Will, now joins this unfortunate chorus. In his January 15 column, he wrote of the Enron affair that "It will remind everyone—some conservatives, painfully—that a mature capitalist economy is a government project." If even the conservatives are now claiming that we need the state to run the economy, then it is clear that some economic education is in order.

Of course, there is one sense in which capitalism is a government project: the Marxist sense. According to Marx, "capitalism" is defined as a system of exploitation that requires the "bourgeois" state to enforce it. What we think of as property rights are merely the legal fictions that perpetuate class conflict and keep all wealth in the hands of the rich. Once we proceed to communism, the central planners of the economy can arrange things so as to eliminate exploitation and ensure the correct distribution of all resources. Although it sounds as if this too would have to be a government project, Marx argues that everyone would then see the exploitation that had previously been obscured and enthusiastically embrace the new order, and so it would no longer require the state. On this theory, planned socialism is the voluntary social order and capitalism is the government project. But one suspects that George Will is not a Marxist.

But if Will is not a Marxist, then his conception of the role of government in creating the free market must reflect an incomplete understanding of both. Will writes that "A properly functioning free market system does not spring spontaneously from society's soil as dandelions spring from suburban lawns." The clever simile notwithstanding, that's precisely what a free market does. No one determines the amount of a good to be produced, or how much it will cost, or who will compete for the buying and selling of it and competing goods.

As Leonard Read pointed out in these pages many years ago, millions of individual decisions come together to create the amounts and prices of goods without any central planning. The free market is just the totality of all these individual decisions, which end up yielding results no planner could determine. The free market is, to use a phrase popularized by a better economist than Marx, a spontaneous order. What that means is that there is an orderliness to the way it works, without that order being the product of conscious design. Supply is coordinated with demand, and prices and wages reflect both in a much more accurate way than any one person could determine.

What would it mean, then, to say that the free market is a government project? Certainly governments can run a market, setting prices and quantities itself. But the very idea of a *free* market is that individuals make choices about their own preferences, and the confluence of the many individual choices is what determines the outcomes. If the government dictates prices and quantities, some individual will necessarily be deprived of his autonomy, which is bad enough in a free society. Moreover, the planned outcomes will be less efficient, because the outcomes will be based on insufficient information.

Laws and Mores

Will is undoubtedly aware of the superior efficiency of the free market over central planning, and he makes a more specific claim about the relationship between the government and the free market. Rather than it being literally a government project, he suggests a mediated sense in which it depends on government. He writes that the free market is "a complex creation of laws and mores." In other words, even if it's true that free markets allocate resources more efficiently than central planning, we need government to create the free market, because it is the government's provision of laws and mores that make the free market possible.

First of all, unless Will wants to argue that government creates customs and morality, it's a sleight of hand to run "laws and mores" together as he does. But taking his point as is, it's true only in a very limited sense, one that doesn't warrant his conclusion. There is a sense in which the free market depends on laws and mores, namely the fact that in every human society, rules governing trade develop in ways that facilitate that trade: rules about contracts, for example, or rules discouraging fraud. But the development of those rules is not, historically, a government project. They, too, emerge spontaneously from the variety of human activity.

The same process by which markets "determine" prices accounts for the emergence of social rules—the common law—that facilitate human interaction, a bottom-up process of unplanned yet efficient outcomes, not a top-down process imposed by some authority. Both the common law and the market are examples of coordinated yet unplanned human interaction that reflect individual choice-making. So of course the market depends on laws and mores, but it's not a "creation of" laws and mores. That's not nitpicking about word choice; it's a crucial distinction, one which reveals much about a person's understanding of the relationship between order and authority.

Will points out examples of managerial misconduct in the Enron case, but then makes the non-sequitur inference that "government can strengthen an economic system that depends on it." It's not clear just what he thinks that would entail. Fraud and theft are already illegal. Mismanagement isn't, nor is it possible to make it so, since the information necessary to prevent and punish such a crime is the sort that is literally impossible to obtain. In addition, the necessarily clumsy and incomplete attempts to do so would entail interfering in the individual choice-making that defines a free market.

So his inference fails on two counts: its mistaken premise that the economic system depends on the government, and its misguided call for government action. Socialist critics of the free market can argue that people should not have the freedom to make certain choices, or that central planning produces superior outcomes than the agglomeration of individual choice that is the market. These are flawed criticisms, but they at least acknowledge that markets emerge from free human interaction. If conservative commentators fail to acknowledge it, it's no wonder capitalism is getting a bad reputation. Defenders of the free market have to be more forthright about the market's independence from state power.

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The War on Margarine

by Adam Young

This year marks the 116th anniversary of the Federal Margarine Act of 1886, part of an 80-year war on butter's toughest competitor.

The Act was the capstone of a movement to prevent consumers from enjoying the cheaper spread, which was introduced in 1874. The advocates of the Act, and of earlier state laws regulating the packaging and sale of margarine, argued they were preventing unscrupulous wholesalers and retailers from masking margarine as the more expensive dairy butter and duping unwitting consumers. The media and public generally assume that bureaucracy and regulation are benevolently aimed at making a safer world. But that wasn't the true motive at all.

Margarine, or oleomargarine as it was called in those days, was invented by a French chemist named Hippolyte Mège-Mouriès when he observed that even starved cows produced milk rich in butterfat, which originated in their body fats. He had the idea that pure oil resembling butterfat could be extracted from beef fat. This beef oil could then be combined with milk to form a cheap butter-like substitute.

Mège-Mouriès was given a French patent for his process in 1869 and a U.S. patent in 1873. His American patent was bought in 1874 by the U.S. Dairy Company, which went on to introduce margarine to the United States. The company opened 15 factories over the next seven years, with five in New York state. It and its subsidiary, the Commercial Manufacturing Company, made both margarine oil and margarine butter and led the industry with nearly 10 percent of the market. By 1882 the firm produced 50,000 pounds of margarine butter a day and more than half the 20 million pounds annually produced in New York state alone.*

As margarine prices fell, consumers were won over, especially poor individuals and families who preferred it to the cheap low-grade dairy butter produced by small family farms. The larger high-grade producers were also threatened.

In 1882, at a meeting of the House Ways and Means Committee, the vice president of the New York State Dairy Association, Professor L. B. Arnold, testified that the availability of margarine had caused producers of creamery butters to increase their quality in order to maintain their comparative advantage. This in turn would harm small family-run producers of lower-grade butters as they were out-competed by the larger, better-capitalized, and efficient industrial producers of the higher-grade butters. Although the production of margarine was capital-

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*Celia Bergoffen, "Margarine Wars," *Audacity: The Magazine of Business Experience*, Summer 1995, p. 55. Quotations and particulars are from this article (pp. 52–61). The National Association of Margarine Manufacturers' website at www.margarine.org/historyofmargarine.html was also helpful.