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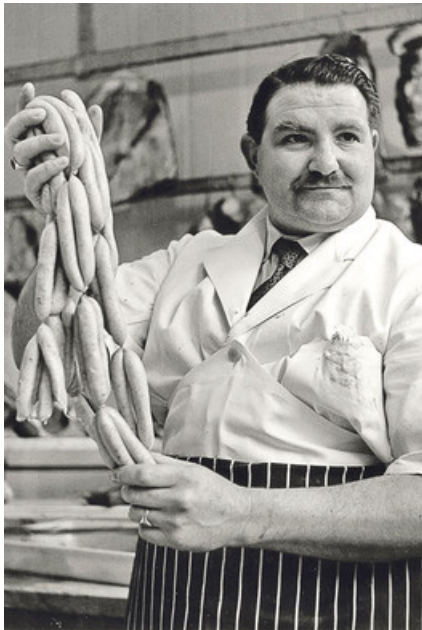
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Why Capitalism Has an Image Problem

Charles Murray examines the cloud now hanging over American business—and what today's capitalists can do about it.

By CHARLES MURRAY

MMitt Romney's résumé at Bain should be a slam dunk. He has been a successful capitalist, and capitalism is the best thing that has ever happened to the material condition of the human race. From the dawn of history until the 18th century, every society in the world was impoverished, with only the thinnest film of wealth on top. Then came capitalism and the Industrial Revolution. Everywhere that capitalism subsequently took hold, national wealth began to increase and poverty began to fall. Everywhere that capitalism didn't take hold, people remained impoverished. Everywhere that capitalism has been rejected since then, poverty has increased.



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A butcher

Capitalism has lifted the world out of poverty because it gives people a chance to get rich by creating value and reaping the rewards. Who better to be president of the greatest of all capitalist nations than a man who got rich by being a brilliant capitalist?

Yet it hasn't worked out that way for Mr. Romney. "Capitalist" has become an accusation. The creative destruction that is at the heart of a growing economy is now seen as evil. Americans increasingly appear to accept the mind-set that kept the world in poverty for millennia: If you've gotten rich, it is because you made someone else poorer.

What happened to turn the mood of the country so far from our historic celebration of economic success?

Two important changes in objective conditions have contributed to this change in mood. One is the rise of collusive capitalism. Part of that phenomenon involves crony capitalism, whereby the people on top take care of each other at shareholder expense (search on "golden parachutes").

But the problem of crony capitalism is trivial compared with the collusion engendered by government. In today's world, every business's operations and bottom line are affected by rules set by legislators and bureaucrats. The result has been corruption on a massive scale. Sometimes the corruption is retail, whereby a single corporation creates a competitive advantage through the cooperation of regulators or politicians (search on "earmarks"). Sometimes the corruption is wholesale, creating an industrywide potential for profit that would not exist in the absence of government subsidies or regulations (like ethanol used to fuel cars and low-interest mortgages for people who are unlikely to pay them back). Collusive capitalism has become visible to the public and increasingly defines capitalism in the public mind.

Another change in objective conditions has been the emergence of great fortunes made quickly in the financial markets. It has always been easy for Americans to applaud people who get rich by creating products and services that people want to buy. That is why Thomas Edison and Henry Ford were American heroes a century ago, and Steve Jobs was one when he died last year.

When great wealth is generated instead by making smart buy and sell decisions in the markets, it smacks of inside knowledge, arcane financial



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Henry Ford with his Model T



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Wall Street traders around 1925.



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The Google office in 2008

instruments, opportunities that aren't accessible to ordinary people, and hocus-pocus. The good that these rich people have done in the process of getting rich is obscure. The benefits of more efficient allocation of capital are huge, but they are really, really hard to explain simply and persuasively. It looks to a large proportion of the public as if we've got some fabulously wealthy people who haven't done anything to deserve their wealth.

The objective changes in capitalism as it is practiced plausibly account for much of the hostility toward capitalism. But they don't account for the unwillingness of capitalists who are getting rich the old-fashioned way—earning it—to defend themselves.



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A dry-cleaning store

I assign that timidity to two other causes. First, large numbers of today's successful capitalists are people of the political left who may think their own work is legitimate but feel no allegiance to capitalism as a system or kinship with capitalists on the other side of the political fence. Furthermore, these capitalists of the left are concentrated where it counts most. The most visible entrepreneurs of the high-tech industry are predominantly liberal. So are most of the people who run the entertainment and news industries. Even leaders of the financial industry increasingly share the politics of George Soros. Whether measured by fundraising data or by the members of Congress elected from the ZIP Codes where they live, the elite centers with the most clout in the culture are filled with people who are embarrassed to identify themselves as capitalists, and it shows in the cultural effect of their work.



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Traders on the NYSE floor in 2011



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While Ray Kroc (shown) and Mark Zuckerberg have been lauded as innovators, financial moguls attract more suspicion.

Another factor is the segregation of capitalism from virtue. Historically, the merits of free enterprise and the obligations of success were intertwined in the national catechism. McGuffey's Readers, the books on which generations of American children were raised, have plenty of stories treating initiative, hard work and entrepreneurialism as virtues, but just as many stories praising the virtues of self-restraint, personal integrity and concern for those who depend on you. The freedom to act and a stern moral obligation to act in certain ways were seen as two sides of the same American coin. Little of that has survived.

To accept the concept of virtue requires that you believe some ways of behaving are right and others are wrong always and everywhere. That openly judgmental stand is no longer acceptable in America's schools nor



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Mark Zuckerberg

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entry into vocations, prescribes work conditions and facilities, or confiscates profits interferes with economic liberty and usually makes it more difficult for both employers and employees to earn success. You also don't need to be a libertarian to demand that any new intervention meet this burden of proof: It will accomplish something that tort law and enforcement of basic laws against force, fraud and collusion do not accomplish.

People with a wide range of political views can also acknowledge that these interventions do the most harm to individuals and small enterprises. Huge banks can, albeit at great expense, cope with the Dodd-Frank law's absurd regulatory burdens; many small banks cannot. Huge corporations can cope with the myriad rules issued by the Occupational Safety and Health Administration, the Environmental Protection Agency, the Equal Employment Opportunity Commission and their state-level counterparts. The same rules can crush small businesses and individuals trying to start small businesses.

Finally, people with a wide range of political views can acknowledge that what has happened incrementally over the past half-century has led to a labyrinthine regulatory system, irrational liability law and a corrupt tax code. Sweeping simplifications and rationalizations of all these systems are possible in ways that even moderate Democrats could accept in a less polarized political

in many American homes. Correspondingly, we have watched the deterioration of the sense of stewardship that once was so widespread among the most successful Americans and the near disappearance of the sense of seamliness that led successful capitalists to be obedient to unenforceable standards of propriety. Many senior figures in the financial world were appalled by what was going on during the run-up to the financial meltdown of 2008. Why were they so silent before and after the catastrophe? Capitalists who behave honorably and with restraint no longer have either the platform or the vocabulary to preach their own standards and to condemn capitalists who behave dishonorably and recklessly.

And so capitalism's reputation has fallen on hard times and the principled case for capitalism must be made anew. That case has been made brilliantly and often in the past, with Milton Friedman's "Capitalism and Freedom" being my own favorite. But in today's political climate, updating the case for capitalism requires a restatement of old truths in ways that Americans from across the political spectrum can accept. Here is my best effort:

The U.S. was created to foster human flourishing. The means to that end was the exercise of liberty in the pursuit of happiness. Capitalism is the economic expression of liberty. The pursuit of happiness, with happiness defined in the classic sense of justified and lasting satisfaction with life as a whole, depends on economic liberty every bit as much as it depends on other kinds of freedom.

"Lasting and justified satisfaction with life as a whole" is produced by a relatively small set of important achievements that we can rightly attribute to our own actions. Arthur Brooks, my colleague at the American Enterprise Institute, has usefully labeled such achievements "earned success." Earned success can arise from a successful marriage, children raised well, a valued place as a member of a community, or devotion to a faith. Earned success also arises from achievement in the economic realm, which is where capitalism comes in.

Earning a living for yourself and your family through your own efforts is the most elemental form of earned success. Successfully starting a business, no matter how small, is an act of creating something out of nothing that carries satisfactions far beyond those of the money it brings in. Finding work that not only pays the bills but that you enjoy is a crucially important resource for earned success.

Making a living, starting a business and finding work that you enjoy all depend on freedom to act in the economic realm. What government can do to help is establish the rule of law so that informed and voluntary trades can take place. More formally, government can vigorously enforce laws against the use of force, fraud and criminal collusion, and use tort law to hold people liable for harm they cause others.

Everything else the government does inherently restricts economic freedom to act in pursuit of earned success. I am a libertarian and think that almost none of those restrictions are justified. But accepting the case for capitalism doesn't require you to be a libertarian. You are free to argue that certain government interventions are justified. You just need to acknowledge this truth: Every intervention that erects barriers to starting a business, makes it expensive to hire or fire employees, restricts

environment.

To put it another way, it should be possible to revive a national consensus affirming that capitalism embraces the best and most essential things about American life; that freeing capitalism to do what it does best won't just create national wealth and reduce poverty, but expand the ability of Americans to achieve earned success—to pursue happiness.

Reviving that consensus also requires us to return to the vocabulary of virtue when we talk about capitalism. Personal integrity, a sense of seamliness and concern for those who depend on us are not "values" that are no better or worse than other values. Historically, they have been deeply embedded in the American version of capitalism. If it is necessary to remind the middle class and working class that the rich are not their enemies, it is equally necessary to remind the most successful among us that their obligations are not to be measured in terms of their tax bills. Their principled stewardship can nurture and restore our heritage of liberty. Their indifference to that heritage can destroy it.

—Mr. Murray is the author of "Coming Apart: The State of White America, 1960-2010" and the W.H. Brady Scholar at the American Enterprise Institute.

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