

to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The

shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for. ♦ ♦ ♦

What Is Capitalism?*

Ayn Rand

Rand (1905–1982) grew up in Russia and witnessed the Russian revolution firsthand. She immigrated to America where she became a writer famous for her views promoting individual triumph over collectivism. Ayn Rand's work is still enormously influential and has a considerable following. Her point of view is reflected in many discussions about topics in business ethics.

In this passage she defines the notion of objectivism. Rand believes there are values external to individuals, and the free market rewards those who discover them. Basic to her view is the paramount nature of personal property rights and voluntary choice. She rejects what she terms "tribalism," where members of a community are obliged to take care of others, or appeals to "the common good." She feels that capitalism has an unrivaled record of human achievement fueled by individuals seeking their own interests.

A social system is a set of moral-political-economic principles embodied in a society's laws, institutions, and government, which determine the relationships, the terms of association, among the men living in a given geographical

area. It is obvious that these terms and relationships depend on an identification of man's nature, that they would be different if they pertain to a society of rational beings or to a colony of ants. It is obvious that they will be radically different if men deal with one another as free, independent individuals, on the premise that every

*Original footnotes have been omitted.

man is an end in himself—or as members of a pack, each regarding the others as the means to his ends and to the ends of “the pack as a whole.”

There are only two fundamental questions (or two aspects of the same question) that determine the nature of any social system: Does a social system recognize individual rights?—and: Does a social system ban physical force from human relationships? The answer to the second question is the practical implementation of the answer to the first.

Is man a sovereign individual who owns his person, his mind, his life, his work and its products—or is he the property of the tribe (the state, the society, the collective) that may dispose of him in any way it pleases, that may dictate his convictions, prescribe the course of his life, control his work and expropriate his products? Does man have the *right* to exist for his own sake—or is he born in bondage, as an indentured servant who must keep buying his life by serving the tribe but can never acquire it free and clear?

This is the first question to answer. The rest is consequences and practical implementations. The basic issue is only: Is man free?

In mankind’s history, capitalism is the only system that answers: Yes.

Capitalism is a social system based on the recognition of individual rights, including property rights, in which all property is privately owned.

The recognition of individual rights entails the banishment of physical force from human relationships: basically, rights can be violated only by means of force. In a capitalist society, no man or group may *initiate* the use of physical force against others. The only function of the government, in such a society, is the task of protecting man’s rights, i.e., the task of protecting him from physical force; the government acts as the agent of man’s right of self-defense, and may use force only in retaliation and only against those who initiate its use; thus the government is the means

of placing the retaliatory use of force under *objective control*.

It is the basic, metaphysical fact of man’s nature—the connection between his survival and his use of reason—that capitalism recognizes and protects.

In a capitalist society, all human relationships are *voluntary*. Men are free to cooperate or not, to deal with one another or not, as their own individual judgments, convictions, and interests dictate. They can deal with one another only in terms of and by means of reason, i.e., by means of discussion, persuasion, and *contractual* agreement, by voluntary choice to mutual benefit. The right to agree with others is not a problem in any society; it is *the right to disagree* that is crucial. It is the institution of private property that protects and implements the right to disagree—and thus keeps the road open to man’s most valuable attribute (valuable personally, socially, and *objectively*): the creative mind.

This is the cardinal difference between capitalism and collectivism. . . .

The “practical” justification of capitalism does not lie in the collectivist claim that it effects “the best allocation of national resources.” Man is *not* a “national resource” and neither is his mind—and without the creative power of man’s intelligence, raw materials remain just so many useless raw materials.

The *moral* justification of capitalism does not lie in the altruist claim that it represents the best way to achieve “the common good.” It is true that capitalism does—if that catch-phrase has any meaning—but this is merely a secondary consequence. The moral justification of capitalism lies in the fact that it is the only system consonant with man’s rational nature, that it protects man’s survival *qua* man, and that its ruling principle is: *justice*.

Every social system is based, explicitly or implicitly, on some theory of ethics. The tribal

notion of "the common good" has served as the moral justification of most social systems—and of all tyrannies—in history. The degree of a society's enslavement or freedom corresponded to the degree to which that tribal slogan was invoked or ignored.

"The common good" (or "the public interest") is an undefined and undefinable concept: there is no such entity as "the tribe" or "the public"; the tribe (or the public or society) is only a number of individual men. Nothing can be good for the tribe as such; "good" and "value" pertain *only* to a living organism—to an individual living organism—not to a disembodied aggregate of relationships.

"The common good" is a meaningless concept, unless taken literally, in which case its only possible meaning is: the sum of the good of *all* the individual men involved. But in that case, the concept is meaningless as a moral criterion: it leaves open the question of what *is* the good of individual men and how does one determine it?

It is not, however, in its literal meaning that that concept is generally used. It is accepted precisely for its elastic, undefinable, mystical character which serves, not as a moral guide, but as an escape from morality. Since the good is not applicable to the disembodied, it becomes a moral blank check for those who attempt to embody it . . .

There are, in essence, three schools of thought on the nature of the good: the intrinsic, the subjective, and the objective. The *intrinsic* theory holds that the good is inherent in certain things or actions as such, regardless of their context and consequences, regardless of any benefit or injury they may cause to the actors and subjects involved. It is a theory that divorces the concept of "good" from beneficiaries, and the concept of "value" from valuer and purpose—claiming that the good is good in, by, and of itself.

The *subjectivist* theory holds that the good bears no relation to the facts of reality, that it is

the product of a man's consciousness, created by his feelings, desires, "intuitions," or whims, and that it is merely an "arbitrary postulate" or an "emotional commitment."

The *intrinsic* theory holds that the good resides in some sort of reality, independent of man's consciousness; the *subjectivist* theory holds that the good resides in man's consciousness, independent of reality.

The *objective* theory holds that the good is neither an attribute of "things in themselves" nor of man's emotional states, but *an evaluation* of the facts of reality by man's consciousness according to a rational standard of value. (Rational, in this context, means: derived from the facts of reality and validated by a process of reason.) The *objective* theory holds that *the good is an aspect of reality in relation to man*—and that it must be discovered, not invented, by man. Fundamental to an objective theory of values is the question: Of value to whom and for what? An objective theory does not permit context-dropping or "concept-stealing"; it does not permit the separation of "value" from "purpose," of the good from beneficiaries, and of man's actions from reason.

Of all the social systems in mankind's history, *capitalism is the only system based on an objective theory of values.*

The *intrinsic* theory and the *subjectivist* theory (or a mixture of both) are the necessary base of every dictatorship, tyranny, or variant of the absolute state. Whether they are held consciously or subconsciously—in the explicit form of a philosopher's treatise or in the implicit chaos of its echoes in an average man's feelings—these theories make it possible for a man to believe that the good is independent of man's mind and can be achieved by physical force.

If a man believes that the good is intrinsic in certain actions, he will not hesitate to force others to perform them. If he believes that the human benefit or injury caused by such actions is of

no significance, he will regard a sea of blood as of no significance. If he believes that the beneficiaries of such actions are irrelevant (or interchangeable), he will regard wholesale slaughter as his moral duty in the service of a "higher" good. It is the intrinsic theory of values that produces a Robespierre, a Lenin, a Stalin, or a Hitler. It is not an accident that Eichmann was a Kantian.

If a man believes that the good is a matter of arbitrary, subjective choice, the issue of good or evil becomes, for him, an issue of: *my feelings or theirs?* No bridge, understanding, or communication is possible to him. Reason is the only means of communication among men, and an objectively perceivable reality is their only common frame of reference; when these are invalidated (i.e., held to be irrelevant) in the field of morality, force becomes men's only way of dealing with one another. If the subjectivist wants to pursue some social ideal of his own, he feels morally entitled to force men "for their own good," since he *feels* that he is right and that there is nothing to oppose him but their misguided feelings.

Thus, in practice, the proponents of the intrinsic and the subjectivist schools meet and blend. (They blend in terms of their psych-epistemology as well: by what means do the moralists of the intrinsic school discover their transcendental "good," if not by means of special, non-rational intuitions and revelations, i.e., by means of their feelings?) It is doubtful whether anyone can hold either of these theories as an actual, if mistaken, conviction. But both serve as a rationalization of power-lust and of rule by brute force, unleashing the potential dictator and disarming his victims.

The objective theory of values is the only moral theory incompatible with rule by force. Capitalism is the only system based implicitly on an objective theory of values—and the historic tragedy is that this has never been made explicit.

If one knows that the good is *objective*—i.e., determined by the nature of reality, but to be discovered by man's mind—one knows that an attempt to achieve the good by physical force is a monstrous contradiction which negates morality at its root by destroying man's capacity to recognize the good, i.e., his capacity to value. Force invalidates and paralyzes a man's judgment, demanding that he act against it, thus rendering him morally impotent. A value which one is forced to accept at the price of surrendering one's mind, is not a value to anyone; the forcibly mindless can neither judge nor choose nor value. An attempt to achieve the good by force is like an attempt to provide a man with a picture gallery at the price of cutting out his eyes. Values cannot exist (cannot be valued) outside the full context of a man's life, needs, goals, and *knowledge*.

The objective view of values permeates the entire structure of a capitalist society. . . .

The free market represents the *social* application of an objective theory of values. Since values are to be discovered by man's mind, men must be free to discover them—to think, to study, to translate their knowledge into physical form, to offer their products for trade, to judge them, and to choose, be it material goods or ideas, a loaf of bread or a philosophical treatise. Since values are established contextually, every man must judge for himself, in the context of his own knowledge, goals, and interests. Since values are determined by the nature of reality, it is reality that serves as men's ultimate arbiter: if a man's judgment is right, the rewards are his; if it is wrong, he is his only victim.

It is in regard to a free market that the distinction between an intrinsic, subjective, and objective view of values is particularly important to understand. The market value of a product is *not* an intrinsic value, not a "value in itself" hanging in a vacuum. A free market never loses sight of the question: Of value *to whom?* And, within the

broad field of objectivity, the market value of a product does not reflect its *philosophically objective* value, but only its *socially objective* value. . . .

Just as the number of its adherents is not a proof of an idea's truth or falsehood, of an art work's merit or demerit, of a product's efficacy or inefficacy—so the free-market value of goods or services does not necessarily represent their philosophically objective value, but only their *socially objective* value, i.e., the sum of the individual judgments of all the men involved in trade at a given time, the sum of what *they* valued, each in the context of his own life.

Thus, a manufacturer of lipstick may well make a greater fortune than a manufacturer of microscopes—even though it can be rationally demonstrated that microscopes are scientifically more valuable than lipstick. But—valuable to *whom*?

A microscope is of no value to a little stenographer struggling to make a living; a lipstick is; a lipstick, to her, may mean the difference between self-confidence and self-doubt, between glamour and drudgery.

This does not mean, however, that the values ruling a free market are *subjective*. If the stenographer spends all her money on cosmetics and has none left to pay for the use of a microscope (for a visit to the doctor) *when she needs it*, she learns a better method of budgeting her income; the free market serves as her teacher: she has no way to penalize others for her mistakes. If she budgets rationally, the microscope is always available to serve her own specific needs *and no more*, as far as she is concerned: she is not taxed to support an entire hospital, a research laboratory, or a space ship's journey to the moon. Within her own productive power, she does pay a part of the cost of scientific achievements, *when and as she needs them*. She has no "social duty," her own life is her only responsibility—and the only thing that a capitalist system requires of

her is the thing that *nature* requires: rationality, i.e., that she live and act to the best of her own judgment.

Within every category of goods and services offered on a free market, it is the purveyor of the best product at the cheapest price who wins the greatest financial rewards *in that field*—not automatically nor immediately nor by fiat, but by virtue of the free market, which teaches every participant to look for the *objective* best within the category of his own competence, and penalizes those who act on irrational considerations.

Now observe that a free market does not level men down to some common denominator—that the intellectual criteria of the majority do not rule a free market or a free society—and that the exceptional men, the innovators, the intellectual giants, are not held down by the majority. In fact, it is the members of this exceptional minority who lift the whole of a free society to the level of their own achievements, while rising further and ever further.

A free market is a *continuous process* that cannot be held still, an upward process that demands the best (the most rational) of every man and rewards him accordingly. While the majority have barely assimilated the value of the automobile, the creative minority introduces the airplane. The majority learn by demonstration, the minority is free to demonstrate. The "philosophically objective" value of a new product serves as the teacher for those who are willing to exercise their rational faculty, each to the extent of his ability. Those who are unwilling remain unrewarded—as well as those who aspire to more than their ability produces. The stagnant, the irrational, the subjectivist have no power to stop their betters.

(The small minority of adults who are *unable* rather than unwilling to work, have to rely on voluntary charity; misfortune is not a claim to slave labor; there is no such thing as the *right* to consume, control, and destroy those without

whom one would be unable to survive. As to depressions and mass unemployment, they are not caused by the free market, but by government interference into the economy.)

The mental parasites—the imitators who attempt to cater to what they think is the public's known taste—are constantly being beaten by the innovators whose products raise the public's knowledge and taste to ever higher levels. It is in this sense that the free market is ruled, not by the consumers, but by the producers. The most successful ones are those who discover new fields of production, fields which had not been known to exist.

A given product may not be appreciated at once, particularly if it is too radical an innovation; but, barring irrelevant accidents, it wins in the long run. It is in this sense that the free market is not ruled by the intellectual criteria of the majority, which prevail only at and for any given moment; the free market is ruled by those who are able to see and plan long-range—and the better the mind, the longer the range.

The economic value of a man's work is determined, on a free market, by a single principle: by the voluntary consent of those who are willing to trade him their work or products in return. This is the moral meaning of the law of supply and demand; it represents the total rejection of two vicious doctrines: the tribal premise and altruism. It represents the recognition of the fact that man is not the property nor the servant of the tribe, that *a man works in order to support his own life*—as, by his nature, he must—that he has to be guided by his own rational self-interest, and if he wants to trade with others, he cannot expect sacrificial victims, i.e., he cannot expect to receive values without trading commensurate values in return. The sole criterion of what is commensurate, in this context, is the free, voluntary, uncoerced judgment of the traders.

The tribal mentalities attack this principle from two seemingly opposite sides: they claim that the

free market is “unfair” both to the genius and to the average man. The first objection is usually expressed by a question such as: “Why should Elvis Presley make more money than Einstein?” The answer is: Because men work in order to support and enjoy their own lives—and if many men find value in Elvis Presley, they are entitled to spend their money on their own pleasure. Presley's fortune is not taken from those who do not care for his work (I am one of them) nor from Einstein—nor does he stand in Einstein's way—nor does Einstein lack proper recognition and support in a free society, on an appropriate intellectual level.

As to the second objection, the claim that a man of average ability suffers an “unfair” disadvantage on a free market—

... When you live in a rational society, where men are free to trade, you receive an incalculable bonus: the material value of your work is determined not only by your effort, but by the effort of the best productive minds who exist in the world around you. . . .

... The man who does no more than physical labor, consumes the material value-equivalent of his own contribution to the process of production, and leaves no further value, neither for himself nor others. But the man who produces an idea in any field of rational endeavor—the man who discovers new knowledge—is the permanent benefactor of humanity. . . . It is only the value of an idea that can be shared with unlimited numbers of men, making all sharers richer at no one's sacrifice or loss, raising the productive capacity of whatever labor they perform. . . .

In proportion to the mental energy he spent, the man who creates a new invention receives but a small percentage of his value in terms of material payment, no matter what fortune he makes, no matter what millions he earns. But the man who works as a janitor in the factory producing that invention, receives an enormous payment in proportion to the mental effort that his job requires of *him*. And the same is true of all men between, on all levels of ambition and ability.

The man at the top of the intellectual pyramid contributes the most to all those below him, but gets nothing except his material payment, receiving no intellectual bonus from others to add to the value of his time. The man at the bottom who, left to himself, would starve in his hopeless ineptitude, contributes nothing to those above him, but receives the bonus of all of their brains. Such is the nature of the "competition" between the strong and the weak of the intellect. Such is the pattern of "exploitation" for which you have damned the strong. (*Atlas Shrugged*)

And such is the relationship of capitalism to man's mind and to man's survival.

The magnificent progress achieved by capitalism in a brief span of time — the spectacular improvement in the conditions of man's existence

on earth — is a matter of historical record. It is not to be hidden, evaded, or explained away by all the propaganda of capitalism's enemies. But what needs special emphasis is the fact that this progress was achieved by *non-sacrificial* means. . . .

America's abundance was not created by public sacrifices to "the common good," but by the productive genius of free men who pursued their own personal interests and the making of their own private fortunes. They did not starve the people to pay for America's industrialization. They gave the people better jobs, higher wages, and cheaper goods with every new machine they invented, with every scientific discovery or technological advance — and thus the whole country was moving forward and profiting, not suffering, every step of the way. ♦ ♦ ♦

An Egalitarian Theory of Justice

John Rawls

Rawls engages in a thought experiment where he asks us to imagine that we know the basic facts about human nature but not our place in the world. Under this "veil of ignorance," we are to design the general principles for a society. So, for example, we have an equal chance of being men or women, we cannot choose our racial heritage, and we have no say in our intellectual or physical abilities. Given these restrictions, Rawls believes that we will create a society that gives maximum opportunities to all.

We should note two things before reading the passage. First, this discussion is admittedly at a fairly abstract level. This means that refuting Rawls's claims needs to be done at the same level of principle, not on grounds, say, that such an initial contractual episode is unlikely to happen. Second, we should be careful to examine Rawls's conclusions closely. For example, he does not believe in absolute equality but in equality of opportunity. He is willing to allow differences to emerge, under certain conditions. The challenge for those who disagree with him is to pin down exactly the problems in his argument: Are his assumptions incorrect, or is there a flaw in the implications that he draws from them? Although not included in this passage, we might speculate about the nature of a society that would be based on his fundamental principles.