

## Why Capitalism is Important

by John R. Hendrickson

“The more the state ‘plans’ the more difficult planning becomes for the individual.”

F. A. Hayek, 1944<sup>1</sup>

The entrepreneurial spirit is the main engine that drives national economies, but without capitalism and free markets the force of entrepreneurialism is as strong as a smoldering wick. Thomas J. DiLorenzo, the author of *How Capitalism Saved America*, wrote: “Free market capitalism, based on private property and peaceful exchange, is the source of civilization and human progress.”<sup>2</sup> These truths that DiLorenzo listed combined with a written Constitution that protects those values drives the entrepreneurial spirit that creates economic prosperity.

A notable example is Malcolm P. McLean, a truck driver who “fundamentally transformed the centuries-old shipping industry, an industry that had long decided that it had no incentive to change.”<sup>3</sup> McLean soon discovered the inefficiency in moving cargo from trucks onto ships and the obstacles of state-based road regulations and weight limits. McLean took action and reinvented box cargo shipping. He “redesigned truck trailers into two parts—a truck bed on wheels and an independent box trailer, or container.”<sup>4</sup> In addition he purchased the Pan-Atlantic Steamship Company, which had operations in eastern port cities.<sup>5</sup> “By the end of the century, container shipping was transporting approximately 90 percent of the world’s trade cargo.”<sup>6</sup>

Although McLean’s contribution to the shipping industry is not noticed by many Americans, he still joins a lengthy list of successful entrepreneurs that built America’s economy. As Johan Norberg wrote: “Entrepreneurs are the heroes of our world — despite the risks, the hard work, the hostility from society, the envy from neighbors, and state regulations, they keep on creating, they keep on producing and trading. Without them, nothing would be there.”<sup>7</sup>

McLean benefited from two main resources: his intelligence and the American system. McLean saw the inefficiency in the shipping and transportation industry and decided to make an industry more profitable and more efficient. He also benefited from a capitalistic system that encourages free markets and the rule of law that is necessary to act in those markets. McLean, and through him, all of us benefited from capitalism.

The philosophy and debate over markets or governments has gone on for centuries. The 20<sup>th</sup> Century, for example, witnessed a debate between two economic giants: John Maynard Keynes and Frederick von Hayek. The two intellectual goliaths debated the question of markets versus governments. Keynes, with his theory of government regulation and intervention, dominated the debate and attention for much of the century over Hayek’s belief in free markets.

Capitalism is a misunderstood concept. Former British Prime Minister Margaret Thatcher wrote: “It is strange but true that free-enterprise capitalism — capitalism for short — is almost everywhere triumphant yet remarkably little understood.”<sup>8</sup> Often individuals view capitalism and free markets as a harsh philosophy; that is, if left undirected, it is the direct cause of unpleasant business cycles. This was the shared theory of Keynesianism, which feared that without “proper” regulation by government forces, capitalism was dangerous. It was this view that came to dominate in the United States with the Great Depression of 1929.

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## IOWA ECONOMIC SCORECARD

April, 2007  
Volume 15, Number 2

**President**  
Dr. Don Racheter

IOWAECONOMIC SCORECARD is our quarterly economic forecast, arriving in January, April, July, and October, based on interviews with leading Iowa economists.

IOWAECONOMIC SCORECARD is published by Public Interest Institute at Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

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The New Deal, President Franklin D. Roosevelt's multi-faceted initiative to fight the Depression, altered the course on how Americans viewed capitalism. The Republican ascendancy of the 1920s was blamed for allowing capitalism to move unchecked. While the economy looked gilded on the outside, New Dealers argued that internally the economy was hemorrhaging. With that said, Americans provided FDR with a political realignment that left Herbert Hoover and other supporters of limited government wondering and uncertain about the nation's future.

The social compact was changed with the New Deal. The policy of "tax and tax — spend and spend — and elect and elect" was given an overwhelming mandate. FDR and his "Brain Trust" set out to tame the wild tiger of capitalism with a big-tent show of circus acts that matched the best of Barnum & Bailey. The idea was to whip capitalism by regulating industry under the flagship program of the New Deal, the National Industrial Recovery Administration (NIRA), which rallied the nation under the Blue Eagle and patriotic parades. Regulation, it was argued, was needed to "save capitalism" from itself and in the process "save Democracy." It was thought to be "reactionary," if not irresponsible to support the unhindered free market.

It is often assumed, incorrectly, that capitalism means no government whatsoever. Although some have argued this extreme anarchist point of view, Milton Friedman put the record straight in *Capitalism and Freedom*: "Government is necessary to preserve our freedom; yet by concentrating power in political hands, it is also a threat to freedom."<sup>9</sup> James Madison understood this notion because he understood that men were not angels, so therefore, government was a necessity.

Friedman echoed the Founding Fathers when he stated that "government must be limited" and "government power must be dispersed."<sup>10</sup> "The preservation of freedom is the protective reason for limiting and decentralizing governmental power."<sup>11</sup> The New Dealers as well as Keynes believed that government could be a force for good, and in many occasions it is, but the New Deal still did not resolve unemployment, and government regulations resulted in stagflation and price controls in the 1970s.

DiLorenzo noted that "anticapitalism is an ongoing crusade, and such a crusade, if successful, is always sure to destroy jobs, destroy economic freedom, and make us all poor."<sup>12</sup> In addition he correctly states that "a careful reexamination of this country's history makes abundantly clear, capitalism has been America's great blessing."<sup>13</sup>

That blessing is made clear by stories of entrepreneurs such as Malcolm McLean who through inventiveness aided by America's system of liberty revolutionized the shipping industry. Individuals build economies, but without the institutions and laws that foster and protect liberty, individuals become harnessed to the state. America is often spoken of as "uncommon," but it is our "uncommon" freedom and liberty that creates "uncommon"

individuals such as McLean and others that built and continue to build the economic engine of the free world.

As Johan Norberg wrote:

That, I think, is the best defense that the market economy can ever hope for — that people look around and ponder the amazing things and opportunities that entrepreneurs and businesses have given the world during the last 200 years. Just look around at the health, wealth, the technologies, the opportunities, and the food on your plates. Could any of that have been possible for a king or queen 200 years ago?<sup>14</sup>

**(Endnotes)**

<sup>1</sup> F.A. Hayek, in Rod L. Evans and Irwin M. Berent (eds.), *The Quotable Conservative: The Giants of Conservatism on Liberty, Freedom, Individual Responsibility, And Traditional Values*, Adams Publishing, Holbrook, Massachusetts, 1995, p. 95.

<sup>2</sup> Thomas J. DiLorenzo. *How Capitalism Saved America*, Crown Forum, New York, 2004, p. 1.

<sup>3</sup> Anthony J. Mayo and Nitin Nohria, “The Truck Driver Who Reinvented Shipping,” *Working Knowledge for Business Leaders*, Harvard Business School, October 3, 2005, <<http://hbswk.hbs.edu/item/5026.html>> (December 19, 2006).

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Johan Norberg, “Entrepreneurs Are the Heroes of the World,” *Cato’s Letter*, CATO Institute, Winter 2007, vol. 5, No. 1, Washington, D.C., 2007.

<sup>8</sup> Margaret Thatcher. *Statecraft: Strategies for a Changing World*, HarperCollins, New York, 2002, p. 412.

<sup>9</sup> Milton Friedman. *Capitalism and Freedom*. The University of Chicago Press, Chicago, Illinois, 1982, p. 2.

<sup>10</sup> Ibid., pp. 2-3.

<sup>11</sup> Ibid., p. 3.

<sup>12</sup> DiLorenzo, p. 256.

<sup>13</sup> Ibid.

<sup>14</sup> Norberg.

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#### **Iowa's Monthly State Revenue:**

For the current fiscal year "total gross cash receipts increased \$215.1 million (5.3%) compared to FY 2006." In addition, "total net revenues available to the General Fund increased \$46 million." Most major tax categories picked up gains, including a \$7.7 million increase for Corporate tax collections.

#### **Iowa's Estimated Net Yearly Revenue:**

The REC estimate of April 6, 2007 "increased the General Fund tax and other receipts estimate to \$6,109.1 million from the December 2006 estimate of \$6,055.6 million." The FY 08 estimate also increased to \$6,398.5 million.

**Source: Legislative Fiscal Bureau, "Monthly Revenue Memo," Revenue Estimating Conference Report**

#### **Iowa's Unemployment:**

The unemployment rate fell to 3.3% in February, which is a slight decrease from January. In addition, the national rate held steady at 4.5%, with an estimated 97,000 new jobs created. Iowa's labor outlook is holding steady even with concerns at the national level. February's rate was the lowest since the summer of 2001. Workforce Development estimates that "nonfarm employment totaled 1,518,600 in February, which was the fourth straight month of growth for the nonfarm sector." The agency also reported that retail and construction sectors saw the largest gain in seasonally adjusted nonfarm employment.

**Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate News."**

#### **Consumer Confidence Index:**

Nationally, the Consumer Confidence Index slightly increased over the winter, and has now fallen to 107.2 in March. Iowa's region has also declined to 105.8 percent. The Board cites consumer "apprehension" about the "short-term future." The survey demonstrated that the labor market and business conditions declined slightly. Nationally speaking, the Board argues that "the recent turmoil in financial markets" and the increase in gasoline prices may have caused the index to slip. Closer to home the legislative session has provoked concerns over new and increased taxes along with the possible passage of the so-called "Fairshare" labor bill.

**Source: Conference Board, "Consumer Confidence Survey."**

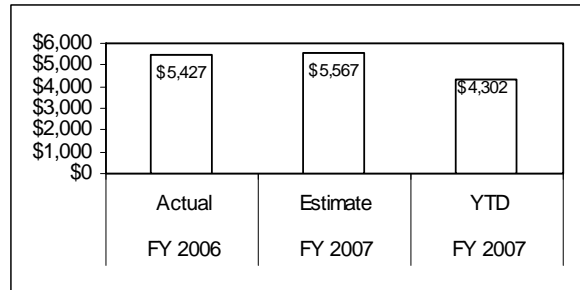
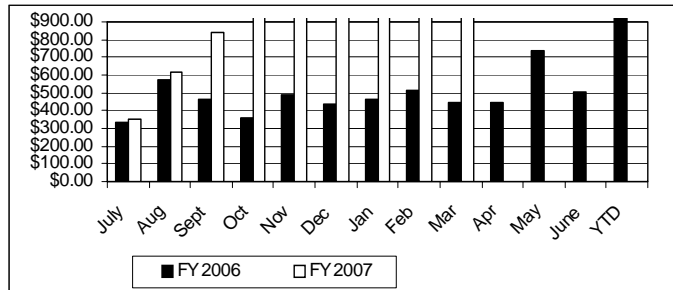
#### **Consumer Price Index, Monthly Change:**

The Consumer Price Index increased slightly in February following a smaller increase in January. BLS reported that most indexes rose in February, while the recreation index held steady. In addition, energy costs increased in February after declining in January. Medical care costs also showed an increase. Overall, payroll employment, average hourly earnings, and productivity in the fourth quarter also increased. Some concern may register in the future with Federal Reserve Chairman Ben Bernanke's warning of inflation being the main economic threat.

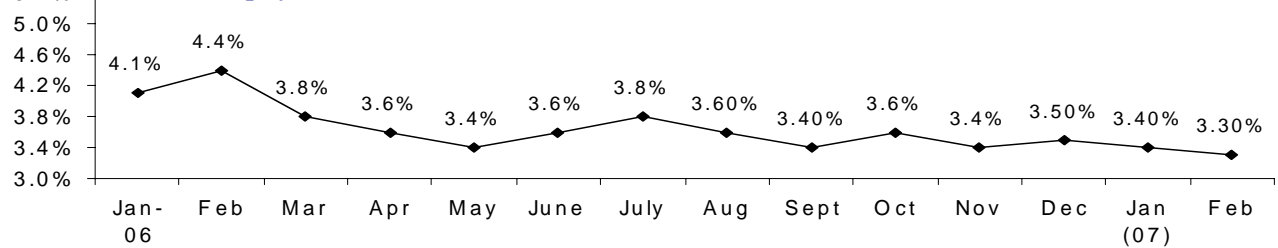
**Source: U.S. Department of Labor, Bureau of Labor Statistics**

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aid envelope to make your tax-deductible contribution to this effort today.

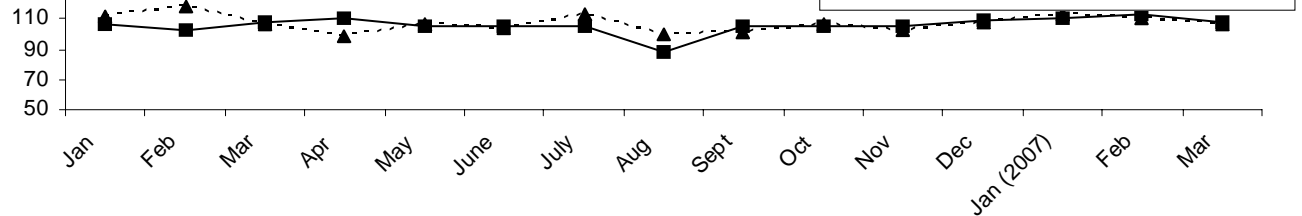
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue



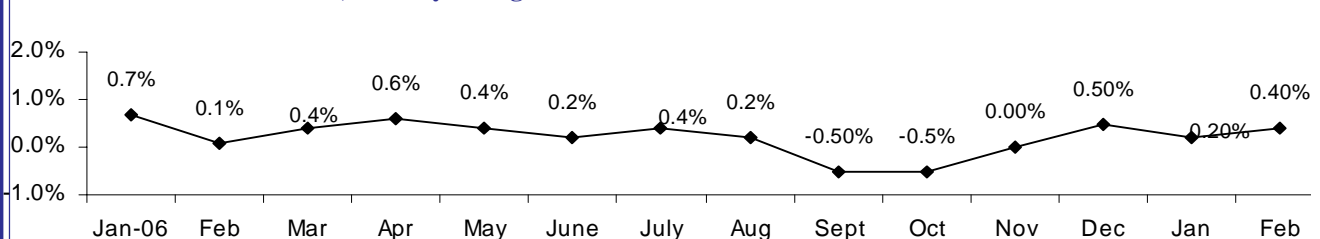
Iowa's Unemployment



Consumer Confidence Index



Consumer Price Index, Monthly Change



**REVENUE ESTIMATING CONFERENCE  
ESTIMATE OF GENERAL FUND RECEIPTS**

**Historical Figures**

<b>TAX RECEIPTS</b>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>% Change</u>
	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>FY 06 Act. Vs</u>
						<u>FY 05 Act.</u>
Personal Inc. Tax	2,372.1	2,417.6	2,592.3	2,782.3	2,854.2	2.6%
Sales Tax	1,453.0	1,450.4	1,465.6	1,812.3	1,881.1	3.8%
Corporate Income Tax	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*
Inheritance Tax	221.2	237.0	234.8	280.9	348.6	24.1%
Insurance Premium Tax	100.3	88.1	80.1	78.4	73.1	-6.8%
Cigarette Tax	135.4	142.2	138.2	130.9	121.4	-7.3%
Tobacco Tax	88.0	88.1	87.1	87.4	89.5	2.4%
Beer Tax	7.1	7.4	8.1	8.7	9.2	5.7%
Franchise Tax	13.8	14.0	14.0	14.0	14.2	1.4%
Miscellaneous Tax	30.9	35.3	38.0	35.4	35.5	0.3%
Total Tax Receipts	1.5	1.1	1.0	0.6	0.6	0.0%
<b>Other Tax Receipts</b>	4,661.8	4,735.4	4,925.9	5,230.9	5,427.4	3.8%
Institutional Payments	48.6	16.2	13.7	12.7	13.0	2.4%
Liquor Profits	47.5	49.0	58.0	59.0	63.8	8.1%
Interest	25.3	18.1	7.6	9.7	17.5	80.4%
Fees	70.2	72.2	79.8	72.3	76.2	5.4%
Judicial Revenue	51.9	54.7	57.6	59.2	63.1	6.6%
Miscellaneous Receipts	42.2	41.3	55.3	65.1	49.7	-23.7%
Racing & Gaming	60.0	60.0	60.0	60.0	60.0	0.0%
Total Other Receipts	345.7	311.5	332.0	338.0	343.3	1.6%
Total Tax & Other Receipts	<b>5,007.5</b>	<b>5,046.5</b>	<b>5,257.9</b>	<b>5,568.9</b>	<b>5,770.7</b>	3.6%
<b>Transfers</b>						
Lottery	40.0	38.9	43.9	49.3	79.6	61.5%
Lottery-Touchplay						
DHS Intergovernmental Transfers						
Other Transfers*	265.8	90.0	13.6	39.1	64.4	64.7%
<b>Total Transfers</b>	305.8	128.9	57.5	88.4	144.0	62.9%
<b>Total Receipts &amp; Transfers</b>	5,313.3	5,175.8	5,315.4	5,657.3	5,914.7	4.5%
<b>Accruals (net)</b>	31.7	(44.9)	83.6	(34.1)	54.0	
Refunds	(663.1)	(647.3)	(715.0)	(696.9)	(586.0)	-15.9%
<b>Net Receipts</b>	4,681.9	4,483.6	4,684.0	4,926.3	5,382.7	9.3%

Source: Iowa Department of Management, Revenue Estimating Conference

**REVENUE ESTIMATING CONFERENCE  
ESTIMATE OF GENERAL FUND RECEIPTS**

Estimates from December 12, 2006

Estimates from April 6, 2007

12/12 FY07 <u>ESTIMATE</u>	% Change FY07 Est. vs. FY06 Est.
3,027.0	6.1%
1,931.9	2.7%
N/A	N/A*
433.3	24.3%
74.4	1.8%
110.0	-9.4%
89.5	0.0%
9.7	5.4%
14.5	2.1%
33.4	-5.9%
1.0	66.7%
<b>5,724.7</b>	<b>5.5%</b>
12.6	-3.1%
66.8	3.1%
23.3	33.1%
69.1	-9.3%
64.3	1.9%
35.8	-28.0%
60.0	0.0%
330.9	-3.6%
<b>6,055.6</b>	<b>4.9%</b>
54.0	-32.2%
84	-87.0%
62.4	-56.7%
6,118.0	3.4%
17.0	-3.2%
(567.6)	3.4%
<b>5,567.4</b>	<b>22.7%</b>

04/06 REC FY07 <u>ESTIMATE</u>	% Change FY07 Est. vs. FY06 Actual	10/06 REC FY08 <u>ESTIMATE</u>	% Change FY08 Est. vs. FY07 Est.
3,033.9	6.3%	3,175.4	4.7%
1,905.7	1.3%	1,961.7	2.9%
N/A*	N/A*	N/A*	N/A*
440.5	26.4%	428.6	-2.7%
75.9	3.8%	81.2	7.0%
116.9	-3.7%	124.4	6.1%
122.2	36.5%	219.7	79.8%
11.6	26.1%	15.4	32.8%
14.2	0.0%	14.3	0.7%
36.9	3.9%	38.7	4.9%
1.0	66.7%	1.0	0.0%
<b>5,758.8</b>	<b>6.1%</b>	<b>6,060.0</b>	<b>5.2%</b>
12.6	-3.1%	12.6	0.0%
66.8	4.7%	67.8	1.5%
29.0	65.7%	29.0	0.0%
81.8	7.3%	62.9	-23.1%
64.3	1.9%	67.9	5.6%
35.8	-28.0%	38.3	7.0%
60.0	0.0%	60.0	0.0%
350.3	2.0%	338.5	-3.4%
<b>6,109.1</b>	<b>5.9%</b>	<b>6,398.5</b>	<b>4.7%</b>
53.4	-32.9%	55.5	3.9%
84			
61.8	-87.0%	84	
	-57.1%	63.9	
6,170.9	4.3%	6,462.4	4.7%
11.3	-3.0%	25.6	N/A
(568.8)	4.3%	(602.3)	5.9%
<b>5,613.4</b>	<b>21.0%</b>	<b>5,885.7</b>	<b>4.9%</b>

\* Past Revenue Estimating Conferences calculated sales and use tax separately, however beginning with the December 2004 report the two were summed into one number.

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## ***IOWA ECONOMIC SCORECARD*** **Question of the Quarter:**

Do you believe that the free market or the government is the best source for economic development?

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