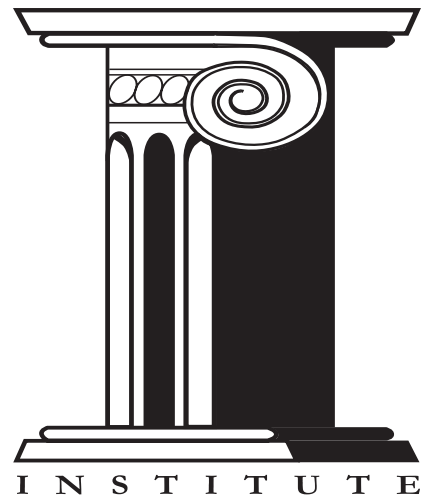


LIMITS



On Power and the Use of Coercion

Why There Is No Human Progress Without Capitalism

by Jim Powell

President Obama is on the warpath, attacking capitalism, but Republican candidates haven't offered much of a counter-attack. This is a bit of a mystery, since the case for capitalism is overwhelming.

For thousands of years, there was virtually no such thing as human progress. The great French historian Fernand Braudel observed, "Peasants represented immense numbers of people, the vast majority of human beings... constant poverty... For century upon century, clothing remained unchanged... the general rule was changelessness." In Europe, peasant possessions were generally limited to little more than a shirt, a pair of

pants, perhaps a simple jacket, a bench, a table, and a straw-filled sack that served as a mattress. In India, there were hardly any chairs or tables to be found. There were few chairs in Islamic lands. Multitudes perished because of famines — France alone had hundreds of famines before 1800. Famine undermined the ability of people to resist common deadly diseases like typhoid fever, purple fever, whooping cough, sweating sickness, diphtheria, smallpox, influenza, syphilis, and the plague.

Capitalism, as economic freedom is often called, has changed the world for the better by harnessing individual self-interest — the most reliable motivator there is. In markets, functioning without subsidies, special favors, or bailouts, entrepreneurs have had powerful incentives to provide what

consumers want.

Markets, cities, and civilization arose along trade routes where it was convenient for people to gather, such as on rivers or a coast. "Markets," Braudel declared, "endlessly worked on economies, stirring them up, bringing them to life." Historian Will Durant added that "Trade was the great disturber of the primitive world."

In many places, local people used common property for grazing, but they didn't have any incentive to improve common property, since somebody else would gain at least part of the benefit. Then in England during the 1700s, higher grain prices led property owners to begin enclosing common property. In many cases, local people received cash settlements. In other cases, common property

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LIMITS

March 2012

Volume 17, Number 1

Public Interest Institute

Dr. Don Racheter,

President

John Hendrickson,

Editor

LIMITS is one of our quarterly membership newsletters, arriving in March, June, September, and December. It consists of short articles and essays on protection of human rights by limiting the powers of government.

LIMITS 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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Why There Is No Human Progress Without Capitalism by Jim Powell (continued from page 1)

was enclosed by an act of Parliament, and the affected local people were often angry. But once land was enclosed, owners had incentives to improve it, because they would benefit. They drained marshes, grew more crops, built walls and erected buildings including houses for laborers who worked on their property. Agricultural output went up, helping to banish famines.

Meanwhile, the Industrial Revolution gained momentum with the development of English textile mills. Entrepreneurs produced not luxuries for the rich but cheap cotton clothing for the multitudes. This made possible improved sanitation, since people could wear one set of clothing while they washed the other set. Most important, England's population was increasing rapidly, and without the Industrial Revolution, millions would have starved, as happened in rural Ireland during the 1840s. "England was delivered, not by her rulers," historian Thomas S. Ashton wrote after World War II, "but by those who, seeking no doubt their own narrow ends, devised new instruments of production. There are today on the plains of India and China people

plague-ridden and hungry, living lives little better, to outward appearance, than those of the cattle that toil with them by day and share their places of sleep by night. Such Asiatic standards, and such unmechanized horrors, are the lot of those who increase their numbers without passing through an Industrial Revolution."

But aristocratic landowners weren't happy, because textile mills created jobs that attracted large numbers of people away from farm work on their estates. The original smears against capitalist factories were made during the 1800s by English aristocrats and later picked up by socialists, much as we are now beginning to see Obama campaign strategists relish the prospect of exploiting recent Republican swipes at capitalism.

Capitalist entrepreneurs created stupendous numbers of jobs that were productive, because they helped provide what consumers wanted. During the early years of the 20th century, when millions of immigrants landed in America, the unemployment rate dropped as low as 1.6 percent. Not only that, economist Thomas Sowell reported: "Immigrants begin economically below the level of existing members of their own ethnic group already in the country, but eventually they surpass them."

Many immigrants launched what became giant business enterprises. Notable immigrant job creators included John Jacob

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Astor, Adolphus Busch, William Colgate, Alexander Graham Bell, Samuel Goldwyn, Louis B. Mayer, and Helena Rubenstein.

Of course, there have been countless failures when entrepreneurs and their employees weren't able to keep up with changing markets. Since consumers always want the most for the least, competition tends to drive down prices. Consequently, costs must be minimized, which can mean reducing head count — payroll is the largest cost for most businesses. Fortunately, if government doesn't have excessive taxes, regulations, or other obstacles to enterprise, capitalism achieves the highest growth rates of any economic system, creating more and more new jobs.

Capitalists have done far more than serve consumers. In addition, many supported charitable enterprises that helped relieve human suffering. Such private individuals could take action much more quickly than government officials who had to cultivate political support for appropriations. It was no coincidence that great charitable enterprises developed along with great business enterprises during the nineteenth century, before there was a welfare state... For instance:

In 1833, New York silk merchants Lewis and Arthur Tappan joined Boston abolitionist William Lloyd Garrison to help form the American Anti-Slavery Society. The Tappans lost their business

during the Panic of 1837, but they subsequently developed America's first credit reporting service that became Dun & Bradstreet. Meanwhile, Lewis Tappan worked to free enslaved Africans who were jailed in New Haven after they had seized control of their ship, the *Amistad* — the case went to the U.S. Supreme Court (1841), and the Africans were acquitted. Lewis Tappan was also a major benefactor of Oberlin College that enrolled women as well as men, blacks as well as whites.

George Williams was an English farm boy who went to London and got a job working for a cloth merchant. He observed how easy it was for young men to get into trouble — they commonly spent their spare time in taverns and brothels. Williams started what became the Young Men's Christian Association (YMCA) in 1844. Before long, it was opened to men, women, and children of all races, religions, and nationalities. Increasingly, YMCAs promoted physical health through sports. Basketball, football, and racquetball all originated at YMCAs. Branches have opened around the world.

In 1859, Geneva-born businessman Henri Dunant was horrified to arrive in Solferino, Italy, after French and Italian forces had fought the Austrians. The battlefield was littered with some 38,000 bodies, and nobody was taking care of the wounded. In 1863, he helped found the International Committee of the Red Cross, and

he helped establish Red Cross organizations in other European countries. In 1901, Dunant was awarded the first Nobel Prize.

In 1865, William Booth, an English Methodist lay preacher, together with his wife Catherine, established the Christian Revival Society in London's impoverished East End. The Booths held nightly meetings aimed at inspiring alcoholics, prostitutes, and thieves to take responsibility for their lives and do good. The Booths recruited neighborhood people to help open soup kitchens for feeding the poor. By 1878, their operations had expanded considerably, and they changed the name of their organization to the Salvation Army. Branches were opened in 58 countries and colonies during Booth's lifetime.

One of the most remarkable cases of private sector charity involved the fabled investment banker Jacob Schiff and nurse Lillian Wald who was the daughter of German-Polish-Jewish immigrants. She had taken care of many poor, sick people in Manhattan's Lower East Side slums. Wald and another nurse, Mary Brewster, started what became the Visiting Nurse Service of New York, and Schiff provided financial backing for 27 years — until he died.

In the Old World, art collections were often built up from plunder, but in the New World art has been a byproduct of capitalism — long before the National Endowment for

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by
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the Arts existed. Without the wealth entrepreneurs created, many people who had artistic talent might have been tilling fields. Museums were born during the Industrial Revolution. Entrepreneurs and their heirs like the Rockefellers, Guggenheims, Havemeyers, and Mellons supported museums. Unlike European museums that catered mainly to artists and scholars, American museums aimed to educate the public. As Joseph Choate, a founder of New York's Metropolitan Museum, put it in 1880: "the diffusion of knowledge of art in its higher forms of beauty would tend directly to humanize, to educate, and refine a practical and laborious people; that through the great masterpieces of painting and sculpture... could never be within their reach, yet it might be possible in the progress of time to gather together a collection of works of merit, which should impart some knowledge of art and its history to a people who were yet to take almost their first steps in that department of knowledge."

In the heyday of laissez faire capitalism, before public schools were widespread, parents

assumed more responsibility for educating their children, and America became a highly literate country. Best evidence of this: the amazing number of books, particularly children's books. In 1840, Cincinnati, the smallest center of the U.S. book trade, issued an estimated 2 million books. In 1855, the American Publisher's Circular reported that more books were sold in the United States than in Great Britain, a much more prosperous country. An estimated 30 to 40 percent of what U.S. publishers issued were textbooks. The New England Primer, a catechism, sold 500,000 copies. By 1859, Noah Webster's spelling book had sold an incredible 30 million copies — this was approximately equal to the U.S. population at the time. The most popular American textbooks, the Readers developed by William Holmes McGuffey, sold an amazing 125 million copies. Peter Parley sold over 7 million copies of his books — *Peter Parley's Tales of America* (1827), *Parley's Winter Evening Tales* (1828), *Parley's Juvenile Tales* (1830) and *Parley's Geography for Children* (1840). Anna Sewall's *Black Beauty*, initially published in London, sold 3 million copies in the United States. James Fenimore Cooper's *Last of the Mohicans* sold over 2 million copies. Books like *She*, *Heidi*, *Little Women*, *Treasure Island*, *Little Lord Fauntleroy*, *Uncle Remus*, *Peck's Bad Boy*, and *The Adventures of Tom Sawyer*

were also among the children's bestsellers.

The most successful 19th century entrepreneurs didn't have much formal schooling, but they had a keen appreciation of learning. This was decades before there was a federal Department of Education. In 1881, Andrew Carnegie created an endowment that over the years spent some \$55 million to build more than 1,600 libraries across America. In 1895, the New York Public Library was formed by consolidating the private libraries of furrier John Jacob Astor, real estate entrepreneur James Lenox, and railroad and mining attorney Samuel Tilden. The New York Public Library now has some 206,000 prints, 400,000 sheets of music, 6.5 million books, and 13.5 million manuscripts.

During the 19th century, successful entrepreneurs funded great colleges and universities before there was a permanent income tax to encourage deductible philanthropic contributions. In 1861, about 20 Boston scientists and entrepreneurs contributed \$100,000 to start the Massachusetts Institute of Technology. In 1868, Western Union investor and land speculator Ezra Cornell started the university that bears his name. In 1873, Baltimore grocer and railroad investor Johns Hopkins died, leaving \$7 million to help fund a major university that opened three years later.

Railroad entrepreneur Leland Stanford started his university in 1885 as a memorial for his son and operated it on his farm. John D. Rockefeller gave \$35 million to help establish the University of Chicago.

Decades before women had the vote, entrepreneurs supported education for women by launching women's colleges like Mount Holyoke (1837), Vassar (1861), Smith (1871), Wellesley (1875), Radcliffe (1879), Bryn Mawr (1885), and Barnard (1889).

Moreover, the Industrial Revolution, in the United States as well as Europe, made life easier for women in countless ways. Mass-produced soap, clothing, cosmetics, canned food, and myriad other things meant that women didn't have to spend huge amounts of time making everything they needed. During the 19th century, kerosene lamps replaced troublesome whale-oil lamps, and gas lights and later electric lights replaced kerosene. With so much labor saved, women began to have leisure time, and many used it to start clubs. A large number were for self-improvement. They encouraged the study of literature, history, science, current affairs, and foreign languages. There were circulating libraries for members. Such clubs helped women with little formal education to gain more knowledge about the world. Professional women formed clubs to discuss their mutual concerns. While government officials suppressed

information about and access to birth control methods, large numbers of women obtained both from private businesses like Sears, Roebuck.

Capitalism created opportunities for women to gain financial independence. Initially, women earned money outside the home mainly by performing domestic service, as maids, cooks, and cleaning women. Then during the 19th century, factory jobs provided new opportunities. Factory owners didn't care what the proper role of women was supposed to be. They hired women because they were willing to work for less than men, and they were often more conscientious workers than men. The invention of the telegraph, typewriter, and telephone created nicer office job options for millions of women. Women got ahead more rapidly in business than in licensed professions and much more rapidly than in politics.

We need to understand how far we have come and how we got here. As historian Braudel reminds us, "Wherever the market is absent, or insignificant, one is certain to be observing the lowest plane of human existence."

After the "progressive" expansion of political power during the past century, America still has the Constitution and enough of a market economy left that it could be restored.

Capitalism is worth defending. Hopefully, the presidential candidates will learn how to do it.

Jim Powell is a Senior Fellow at the Cato Institute and is the author of FDR's Folly, Wilson's War, Bully Boy, The Triumph of Liberty and other books.

This article originally appeared in Forbes on January 24, 2012, and it was added to cato.org on January 24, 2012.

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Question of the Quarter:
Do you think the economy is
in full recovery?

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The Approaching Fiscal Armageddon

by John Hendrickson

Someday, a President, if he is to save the country from bankruptcy and its people from ruin, must make the old fight over again, and this time the battle will be waged against desperate disadvantages. Against him will be arrayed the largest, strongest, and most formidably entrenched army of interested government spenders, wasters, and patronage-dispensing politicians the world has yet known.

Charles G. Dawes¹

President Barack Obama recently proposed a new budget of \$3.8 trillion, which includes tax increases as well as additional economic stimulus money. The budget proposal calls for “\$350 billion in short-term stimulus spending, \$475 billion for the highway program and \$1.5 trillion in tax increases.”² The Administration argues that this budget proposal will reduce the deficit by \$4 trillion along with starting to put the nation on a path of fiscal restoration, while continuing the economic recovery. The national debt currently stands at over \$15 trillion—and the nation is currently running trillion dollar deficits. Although it has been over 1,000 days since the Congress has passed a budget it

is uncertain that a compromise will occur over a budget because of the stark philosophical differences between Republicans and President Obama and the Democrats. Nevertheless policymakers must seriously address the fiscal crisis that is facing the nation. The economy is still in a fragile recovery and the economic storm clouds over Europe may cross the Atlantic to create another recession. In order to resolve the fiscal crisis policymakers must reduce spending, and that is the only solution to avoid further economic decline.

Writing recently in *Forbes*, Peter Ferrara, who serves as Director of Entitlement and Budget Policy for the Heartland Institute and is a former Reagan administration official, argued that President Obama’s budget proposal reflects the same government-centered policies:

In other words, in plain English, what drives economic recovery and growth is government spending. And Obama follows through on that in his new budget, with federal spending for 2012 projected to total \$3.795 trillion, an increase of over 27 percent during his first term alone, up another \$193 billion from the last year. In fact, the President’s own proposed budget projects

federal spending to soar by 2022 to \$5.820 trillion, the highest government spending in world history. Over the next ten years, federal spending, with all of President Obama’s talk about spending cuts, will total \$47 trillion.³

Rich Lowry, editor of *National Review*, wrote that President Obama also “wants to chase the new spending with almost \$2 trillion in new taxes — higher taxes on income, on dividends, on capital gains, and on sundry other targets.”⁴ *The Wall Street Journal* noted some of the tax increases in the budget proposal:

Tax rates will rise as follows: capital gains to 30 percent from 15 percent today; dividends to 30 percent from 15 percent; the estate tax to 45 percent from 35 percent, and don’t forget the end to the temporary payroll tax cut that Mr. Obama is making such an issue of now. He only wants it to last for another ten months.⁵

President Obama’s budget largely reflects his class warfare view of taxation that the wealthy should “pay their fair share” as symbolized by the “Buffet Rule,” but it is still unclear on

what percentage of taxation is considered a “fair share.” In an editorial, *Investor’s Business Daily* noted that “the proposed new ‘Buffet Tax’ will hit wealthy Americans with a marginal tax rate of 90 percent or higher.”⁶ *Investor’s Business Daily* argued that in “all told, it raises taxes from the historic average of 18.3 percent of GDP to 20.1 percent.”⁷ “Tax wise, this is a disastrous budget — one that sets the U.S. on a course for a decade of stagnation, meager job gains, and little or no real income growth,” argued *Investor’s Business Daily*.

The economic recovery of the nation will not be helped by the continued policies of the current Administration. The level of debt being accumulated by the United States must be controlled and entitlement programs must be reformed in order to not only preserve them, but also avoid a European-style social welfare collapse. As Peter Ferrara stated:

Those four consecutive years of trillion dollar deficits under President Obama, the only trillion dollar deficits in world history, added a total of \$5.33 trillion to the national debt held by the public in President Obama’s one term in office alone. Obama’s own budget projects the national debt held by the public to total \$11.6 trillion for 2012, double the national debt of \$5.8 trillion in 2008! Con-

sequently, by Election Day 2012, Obama will have doubled the national debt, in just one term of office. In that one term, he added as much to the national debt as all prior Presidents, from George Washington to George Bush, combined. By 2020, Obama’s own budget projects that national debt held by the public to total nearly \$20 trillion! That would be the highest national debt in world history.⁸

The national economy is still in a weak recovery from the “Great Recession,” and even though the unemployment rate is falling, currently at 8.3 percent, the number is actually higher because of those people who have stopped looking for work or are only employed part-time. With this taken into consideration it is estimated that the unemployment rate is at a much higher rate of 15 percent.⁹ In addition to the economic uncertainty, many Americans have become dependent upon the government for assistance. “More than 67.3 million Americans rely on assistance from Washington for everything from food, shelter, and clothing to college tuition and health care,” stated Ed Feulner, President of the Heritage Foundation.¹⁰

It is clear that in order to not only revive the national economy, but also to avoid a disastrous fiscal crisis, policymakers will have to cut spending. The

problem is a spending problem and not a revenue problem. Representative Paul Ryan (R-WI), who is chair of the House Budget Committee, will unveil in March the GOP budget proposal, which will be much different than President Obama’s. This battle over government spending is between two philosophies of government, but it is important that constitutional limited-government policies return or the republic will continue to decline. Only by returning to sound constitutional policies will the nation be able to begin to reverse course.

Endnotes:

¹Charles G. Dawes, quoted by Ronald and Allis Radosh, in “Time for Another Harding? How a much-derided Republican president actually succeeded in cutting the budget and fixing the economy,” *The Weekly Standard*, October 24, 2011, p. 22.

²Dave Boyer, “Obama unveils fiscal 2013 budget proposal,” *The Washington Times*, February 13, 2012, <<http://www.washingtontimes.com/news/2012/feb/13/obama-unveils-fiscal-2013-budget-proposal/>> accessed on February 14, 2012.

³Peter Ferrara, “Obama’s Budget: The Decline and Fall of the American Economy,” *Forbes*, February 16, 2012, <<http://www.forbes.com/sites/peterferrara/2012/02/16/obamas-budget-the-decline-and-fall->

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600 North Jackson Street
Mount Pleasant, IA 52641-1328**

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by John Hendrickson

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⁴Rich Lowry, “Spend, tax, Repeat,” *National Review Online*, February 14, 2012, <<http://www.nationalreview.com/articles/290990/spend-tax-repeat-rich-lowry>> accessed on February 15, 2012.

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⁷Ibid.

⁸Ferrara.

⁹Aparna Mathur and Matt Jensen, “Tracking the unreported (15.6%) unemployed,” *Real Clear Markets*, January 4, 2012, <http://www.realeclearmarkets.com/articles/2012/01/04/tracking_the_unreported_156_unemployed_99440.html> accessed on January 4, 2012.

¹⁰Ed Feulner, “A nation of takers: Government policy is making welfare more profitable than work,” *The Washington Times*, February 13, 2012,

< <http://www.washingtontimes.com/news/2012/feb/13/a-nation-of-takers/>> accessed on February 14, 2012.

John Hendrickson is a Research Analyst with Public Interest Institute.

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