DEFINING CAPITALISM

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Abstract
This article aims to incorporate the essential features of capitalism in an operational definition that identifies capitalism per se (pure laissez-faire capitalism), and clearly excludes variations such as welfare capitalism and crony capitalism. By concisely highlighting the fundamental structures and mechanisms of capitalism, this essential definition facilitates defences of it that are more robust than those ordinarily offered. It also clarifies the relation between capitalism and phenomena with which it is frequently associated, and suggests a straightforward way of identifying and measuring the extent of capitalism in mixed economies.

JEL codes: B00, D63, H10, I18, P1.

Keywords: capitalism; definition; essentialism; free market; spontaneous order; liberty; coercion; private property; democracy; profits; financial crisis; health care.

. . . every word must be intelligible and indicate something, and not many things but only one; and if it signifies more than one thing, it must be made plain to which of these the word is being applied.

Aristotle (Metaphysics, 1062a13–16)

1. Introduction
This article aims to incorporate the essential features of capitalism in an operational definition that identifies capitalism per se (pure laissez-faire capitalism), and clearly excludes variations such as welfare capitalism and crony capitalism. By concisely highlighting the fundamental structures and mechanisms of capitalism, this essential definition facilitates defences of it that are more robust than those ordinarily offered. It can help prevent capitalism proper both from suffering guilt by association with perverted forms, and from being held responsible for, e.g., the global financial crisis and the defects of US health care. The definition clarifies the relation between capitalism and other phenomena with which it is frequently associated, including capital, competition, profit-seeking, business, freedom, and democracy. It also suggests a straightforward way of identifying and measuring the extent of capitalism in mixed economies.

Without a clear definition, advocates of capitalism are handicapped. They are like defenders of eagles who characterise them simply as ‘large birds’: by including vultures, that general description leaves eagles open to charges of scavenging. To function effectively with either sort of bird alone – to attack, defend or even to identify members of the group properly – a clear and separate notion of each type is required. Similarly, an explicit, operational definition of capitalism is needed to differentiate capitalism properly understood from all other things, especially those with which it is often confused.

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This paper will therefore

(a) justify the need for definition, by offering examples of capitalism’s being misidentified and consequently held responsible for unsatisfactory outcomes;
(b) explain the project of essential definition, and defend it against objections;
(c) identify the essential features of capitalism, in part by briefly reviewing and criticising sample characterisations;
(d) incorporate those essential features in an operational definition of capitalism; and
(e) illustrate how the proposed definition would thwart false charges against capitalism, and clarify its relation to other phenomena.

2. Capitalism (?) as Culprit

Something called ‘capitalism’ has long been held responsible for all sorts of supposed evils. Capitalism has been charged with causing alienation, exploitation and poverty\(^3\). It has been blamed for immorality, for the loss of vital community, and for radically undermining equality and ‘the meritocratic values on which democratic societies are based’ (Piketty 2014, p.1). Capitalism has been held responsible for the destruction of the environment\(^4\), and for causing both malnutrition and obesity (Wells 2012). Capitalism’s operations have been likened to cocaine addiction (Lo 2011, p. 15), and its effects to zombiedom\(^5\).

Even former supporters of capitalism have started to attack it. Consider Richard Posner, reportedly (Shapiro 2000, p. 424) ‘the most cited legal scholar of all time’. Often described as a libertarian\(^6\), he nevertheless stated in *A Failure of Capitalism: The Crisis of ’08 and the Descent into Depression* that ‘the financial crisis is indeed a crisis of capitalism rather than a failure of government.’ (Posner 2011, p. 240)

3. Essential Definition: Necessary and Possible

3.1. Definition Is Needed

What exactly is it that is being criticised? The need for definition is acute, because several of the common usages of ‘capitalism’ are mutually incompatible. It may be fairly obvious that ‘crony capitalism’ and ‘welfare capitalism’ differ from ‘unfettered, free-market, laissez-faire capitalism’. But in the absence of those leading adjectives, the subject is often unclear. The identity of the intended variant will, however, be crucial for determining whether any objection is even applicable, far less justified. Many of the criticisms that are levelled against something called ‘capitalism’ do genuinely apply to crony capitalism. But they do so because of the qualities that differentiate crony capitalism from, and make it a clear perversion of, capitalism properly so called. Precisely for that reason, those same criticisms do not apply to laissez-faire capitalism.

Capitalism is often identified with the system that prevails in the contemporary United States and the United Kingdom. Critics then attribute to capitalism the defects they associate with the US or the UK. But that is like assuming that H\(_2\)O must be salty because sea water is: it is to commit the fallacy of division. Like sea water, actual economies are typically mixtures; attributing faults of the whole to any individual component(s) requires careful analysis of the
particulars of the situation. Whether the problem is high health care costs, unemployment, inequality, or a financial crisis, determining whether capitalism is indeed the culprit requires identifying capitalism as such, and clarifying what part, if any, it plays in the complex mixture.

3.2. Bad Examples

Unfortunately, most works that discuss capitalism do not even try to identify their subject matter; the few authors who do, usually just offer illustrations. Although pointing to examples can provide a useful start, it does not and cannot suffice for definition. That is especially true when, as is often the case for capitalism, the examples cited are only questionably instances of it, being complex mixtures in which capitalism is just one of many components.

Pointing to examples is generally less helpful for definition than is commonly supposed; it often doesn’t work even for simpler things. Pointing doesn’t identify what differentiates items that look similar: consider shrimp and prawns. Nor, typically, does pointing identify which component is intended when things are composed of interrelated parts. Is it the bird, its wing or a particular feather that is being indicated? Furthermore, pointing cannot pick out systems. Recall the visitor to Oxford who was shown the libraries and the labs, the classrooms and the quadrangles, but still asked where the university was. . . . It’s not just a matter of size: conceptually it’s as difficult to point to the human nervous system as it is to point to the solar system. Pointing can only pick out physical objects, not the principles of organisation that constitute systems; significantly, it cannot indicate which features are essential.

3.3. Essence Essentials

The essential features that escape identification through pointing nevertheless constitute the core of definition. The essential features of a thing are just those that are individually necessary and jointly sufficient for it to be that kind of thing and not some other. ‘To define something just means, literally, to set forth its limits in such a way that one can distinguish it from all other things of a different kind.’ (Oderberg 2007, p. 19) Definition applies to things as well as to words: ‘[j]ust as we may define a word, or say what it means, so we may define an object, or say what it is’. (Fine 1994, p. 2) Essential definition specifies the essence of the phenomenon being defined – its nature – and the meaning of the associated concept.

Where X is the subject being defined, the essential definition of X specifies that combination of features that all Xs and only Xs always have. The essential features of a triangle are being a polygon, and having three sides: all triangles but only triangles are three-sided polygons. All the other features of X, those that are not necessary for identifying X simply as an X, are accidents. It is an accidental feature of a triangle that it is isosceles, drawn in ink, or present here and now. Essential features are identified by analysing multiple instances, and abstracting out from them that combination of features that all Xs and only Xs always possess.

3.4. Unsuccessful Challenges

Essential definition is, nevertheless, strongly resisted by many modern academics. But such resistance is unjustified. However unfashionable essentialism as understood by Aristotle may
be, it has not been refuted. The rejection of real essentialism and essential definition has typically reflected misunderstanding rather than argument.

One of the most prominent opponents of essentialism has been Professor Sir Karl Popper. Space does not allow a detailed examination of his views on essentialism; comprehensive critical analyses of it have been provided by others elsewhere. But just as Popper’s philosophy of science is arguably far from what it is commonly thought to be, so his writings on essentialism do not achieve what is often supposed. As Popper himself acknowledged, his ‘... criticism of essentialism does not aim at establishing the nonexistence of essences...’ (Popper 1969, p. 105)

Popper did not even achieve his considerably weaker ambition of ‘... showing the obscurantist character of the role played by the idea of essences in the Galilean philosophy of science.’ (1969, p. 105) Contrary to Popper’s claims, essential definition does not require any mysterious form of intuition. Essences are identified by employing commonplace perceptual and intellectual faculties; the straightforward ways (Oderberg 2007, p. 31) of distinguishing whether essential definitions are true or false are at least as robust as the ones available for testing Popperian conjectures. Essential definitions also do not lack explanatory power: essence importantly ‘... explains the objective unity among multiplicity we find in the world.’ (Oderberg 2007, p. 45)

Popper’s methodological objections to ‘ultimate explanation’ are equally unjustified. What precludes scientific advancement is not the assumption that reality is fundamentally intelligible, but the hasty cessation of investigation and the refusal to consider incompatible evidence. Such errors are neither unique to essentialism, nor ones to which essentialism is particularly prone. Moreover, the assumption that inquiry must end somewhere does not preclude progress. Even if, counterfactually, the ‘ever deeper probing’ Popper associates with science did mean explanation in terms of the most general rather than the most particular, all explanation must logically include some basic, undefined terms if it is not to involve an infinite regress. None of Popper’s objections succeed.

Other concerns about essentialism are equally unfounded, and also give no reason for scepticism about the project of essential definition. The fact that capitalism is characterised in many ways does not mean that capitalism lacks a single, definable essence. Characterisations are often loose, metaphorical or simply mistaken. The various usages of the word ‘capitalism’ typically reflect the many ways in which capitalism is misidentified, and the varying degrees to which it is diluted, disguised or perverted in mixed economies. Despite such variations, capitalism itself has an essential nature that is always the same. Claiming otherwise, is like maintaining that salt does not have a constant or essential nature, because it combines in varying amounts with diverse ingredients to enhance the distinctive flavours of different foods. Even the fact that some actual usages of a term are disqualified by the essential definition does not show that the term is not definable. Quite the contrary: they confirm the definition’s success in differentiating the subject itself from things with which it is often wrongly confused.

Essential definition is also not precluded by the essence’s not being perfectly represented in particular instantiations: ‘its failure to be possessed will be explicable in terms of abnormality, such as mutation, damage, or interference with the operation of the essence.’ (Oderberg 2007, p. 178) More fundamentally, it is never possible to find instances of essences unadulterated with accidents. There are no examples of triangularity or terrier that do not display the accidental
characteristics of some particular triangle or some individual dog. As a further complication for
isolating capitalism, actual economies are typically not pure breeds but mutts. They are hybrids
that result from complex interactions, in which contingent events and historical circumstances
combine with human intentions and unintended consequences.

Even if pure capitalism could never be found anywhere, defining its essence would still be
valuable. To understand the many varieties of a thing, it helps to grasp the basic kind: dining,
drafting and multiplication tables are all illuminated by knowledge of what a table is.

Capitalism ostensibly comes in many forms: amongst the possibilities the literature mentions
are agrarian, American, Anglo-Saxon, big-business, big firm, caring, casino, compassionate,
competitive, conscious, continental European, corporate, creative, crony, Darwinian, democratic,
distributed, dog-eat-dog, employee, entrepreneurial, family, financial, free-market, gangster,
green, inclusive, industrial, Japanese, laissez-faire, managerial, market, modern, monopoly,
naked, new, oligarchic, organized, patrimonial, personal, political, predatory, profit-oriented,
racial, Rhineland, social, state, unfettered, and welfare. To appreciate how these phenomena
might be related, it is necessary to understand capitalism itself. Unless its essential features are
identified, the part that capitalism as such plays in any variant or mixture cannot even be
specified, far less evaluated. The extreme ends of a spectrum may be ideal types, but they
contribute greatly to understanding the range of items in between.

4. Common Characterisations Criticised

So what is the essential definition of capitalism?

Dictionaries seldom attempt to specify essential features, but are nevertheless an obvious
place to start. According to ‘America’s best-selling desk dictionary’ (Merriam-Webster.com,
info/faq.htm), capitalism is

an economic system characterized by private or corporate ownership of capital goods, by investments
that are determined by private decision, and by prices, production, and the distribution of goods that
are determined mainly by competition in a free market. (Merriam-Webster 2003)

This dictionary definition is helpful in several ways. It specifies that capitalism is an economic
system, and highlights the central importance of private ownership, prices, competition and free
markets. The qualification ‘mainly’ does, however, render the definition indefinite: in seeking to
be comprehensive, the dictionary characterisation fails to be specific. Moreover, if non-capital
goods are publicly owned, how is private investment possible? Property must generally be
private, and individuals must be free to dispose of it and their labour, for the price system of
capitalism to work properly and for capital to be accumulated and allocated privately.

Perhaps a better definition might be found in the economics books that have shaped the
discipline. Unfortunately, authors of key works on capitalism have typically devoted little or no
attention to defining their central subject. Adam Smith did not use the term in The Wealth of
Nations (1776). Neither Milton Friedman in Capitalism and Freedom (1962, pp. 4, 13) nor
Joseph Schumpeter in Capitalism, Socialism and Democracy (2008, p. 82) defined it. In The End
of Laissez-Faire, John Maynard Keynes claimed to have identified ‘the essential characteristic
of capitalism’. It was, he claimed, ‘the dependence upon an intense appeal to the money-making
and money-loving instincts of individuals as the main motive force of the economic machine.’

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(Keynes 1926, Part V) But that is to confuse motivations for engaging in an activity with the activity itself. Capitalism is also left undefined in widely used contemporary economics textbooks, and in examinations of comparative economic systems.

Enthusiastic supporters of capitalism are not necessarily any better at capturing its essence. Ayn Rand’s definition of capitalism is particularly disappointing, because she criticised others for failing to define it, and was philosophically committed to essential definition. In Capitalism: The Unknown Ideal (Rand 1967), her chapter ‘What is Capitalism?’ (Rand 1965) is devoted mainly to explaining what she held to be the philosophical foundations of capitalism, especially Objectivist metaphysics, epistemology, and ethics. According to the definition Rand does offer there, ‘Capitalism is a social system based on the recognition of individual rights, including property rights, in which all property is privately owned.’ (Rand 1967, p. 19). In the same work, she defines a ‘social system’ as ‘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.’ (Rand 1967, p. 18)

Although Rand’s definition of capitalism usefully stresses the private ownership of all property, it focuses on capitalism’s underpinnings rather than its definitive features. It also does not sufficiently emphasise economics. A society that lacked the basic economic elements of production and trade would scarcely be recognisable as capitalist, no matter how well individual rights were recognised. Moreover, it is not evident how the government that she claims is presupposed by capitalism as a social system can be compatible with all property’s being privately owned. The buildings in which government functions are performed could easily be private. But what about the equipment used by the country’s military forces, its bullets and intercontinental ballistic missiles? And what is the status of funds collected as taxes before they are disbursed?

Think tanks, and the increasing numbers of institutes devoted to investigating capitalism, seem to be equally poor sources of definitions that identify capitalism precisely. Searches of the Social Sciences Research Network, ABI/INFORM Complete, JSTOR, and Google Scholar reveal some suggestive titles, but few pieces that actually offer any definitions of capitalism. Those that do attempt to define capitalism typically try to encompass all varieties, and thus specify none.

Space does not allow detailing the many unsatisfactory definitions. But it is through interacting with them, and identifying the ways in which they specify more or less than capitalism, that capitalism’s essential features are most readily identified. Capitalism is defined by that combination of features which it and only it always has: those are the features that serve to distinguish unfettered, free-market, laissez-faire capitalism from everything else.

5. The Essence of Capitalism: Capitalism Defined

The essential elements of capitalism can be encapsulated in a concise definition: Capitalism is an economic system characterised by comprehensive private property, free-market pricing, and the absence of coercion. All the terms require explanation.

‘System’ here merely indicates that the phenomenon involved is complex, and has interacting and interdependent elements. It does not indicate or imply that the phenomenon is the product of deliberate design.
Economic systems are typically related to social and political systems, but are nonetheless conceptually distinguishable from them. Roughly, an economic system consists of ways in which goods and services are owned, produced, and distributed. As such, it deals with how (typically scarce) resources are transformed, transferred, and employed. A social system, in contrast, consists (roughly) of the ways in which personal relationships are characteristically organised, and the prevalent patterns of status and role that obtain in a geographical or temporal region. Social systems deal with how families are formed and organised, the role of religion and other public belief systems, and what sorts of personal, professional and organisational titles are considered important, etc. Political systems consist (roughly) of the ways in which people are governed, and the typically formal and legal institutions that are considered to be legitimate sources and wielders of official power. A political system encompasses who may hold office, when and how official power gets transferred, how extensive that power is, etc.

Capitalism, an economic system, is often associated with democratic social and political systems, and confounded with democracy. But though they can be mutually supporting, they are related only contingently: there is no necessary connection between capitalism and democracy. What capitalism requires is not democracy, but the freedom that democracy unfortunately does not necessarily promote or protect.

For markets to operate and the price system to function properly, people must be free to own, use, and transfer their property, and free to enter into enforceable contracts with any willing counterparty. Freedom of assembly, association, expression, and movement are thus needed. All are aspects of negative liberty. Inseparable from the rights to life and property, negative liberty requires the absence of coercion. Coercion is the non-consensual initiation of physical force, fraud, or the threat thereof by a person or persons against other persons or their property.

The comprehensive private property that is essential for capitalism has three elements. First, it requires that well-defined ownership can be established over all kinds of assets, real, tangible, and otherwise. Second, such ownership includes all the liberties and powers normally associated with ‘full liberal ownership’, e.g., the ability to use one’s property, to control it, to earn income from it, to exclude others from it, to dispose of it, etc. Third, all owned assets are owned by private individuals, singly or in groups formed by express consent.

Comprehensive private property presupposes the existence of private property, and thus the rule of law. Rule of law here only requires the operation of some institution(s) capable of enforcing the absence of coercion and the performance of contracts. Neither private property nor the rule of law requires the existence of an institution that claims a monopoly on the legitimate use of physical force in a geographical area – government as it is often understood.

The other essential element of capitalism is free-market pricing, in which prices result from the uncoerced interplay of supply and demand in markets to which entry is not coercively barred. Markets are dynamic information systems that integrate the preferences of myriad individuals and communicate the costs of satisfying them. The pricing signals generated by the free market typically inform asset allocation, both by individuals and by firms. The ways in which those signals are used, however, are not fixed; they depend on the users. Neither rationality nor profit-seeking is presumed.

Profits are conspicuously absent from the definition of capitalism. Profits are, arguably, related to the nature of business, and the activity of business can be most fully pursued in...
capitalist economies. But however common business, profit-seeking, and profit-making may be under capitalism, profits are not exclusive to capitalism, nor pursued by everyone in capitalist economic systems. Profits can be sought under mercantilism and socialism. And unless consumers are investors, they are typically not engaged in profit-seeking, even if achieving their preferences includes pursuing best value for money.

Capital and competition are also not part of the essential definition. Capital is a condition and a routine consequence of capitalism. But understood as ‘assets put to economic use’ (*Economist* 2004), capital is not unique to capitalism: cave men reportedly used and traded flints. Circumstances that favour capitalism usually also favour competition. Because coercive barriers to entry are precluded, competition is likely to be widespread, and may well be fierce in capitalist economies. Nevertheless, some discoveries may enable their suppliers to enjoy a natural monopoly.

6. **Definitive Implications**

The essential definition provides a clear demarcation between capitalism proper – unfettered, free-market, laissez-faire capitalism – and perversions of it. All forms of political capitalism, including crony capitalism and welfare capitalism, necessarily employ coercive government action. Criticism of them is certainly justified, but it is directed at something other than capitalism as such.

The definition also clarifies the ways in which environments are more or less hospitable to capitalism. To the extent that property is not private, and assets and occupations are allocated coercively by command and control, the scope for capitalism is limited. Capitalism is similarly thwarted when rigid social hierarchies and individuals’ roles are prescribed. Such systems are unlikely to feature sufficient freedom of movement for markets and capitalism to operate, even if the restrictions are enforced through religious authority or convention rather than state power. Social systems that favour nepotism, disparage innovation, or disdain the *nouveau riches* are also unreceptive to capitalism. In contrast, social systems that encourage mobility, reward personal achievement, and celebrate the wealthy and ‘self-made’ are ones in which capitalism is likely to flourish.

The essential definition of capitalism usefully provides a way of identifying and assessing the role of capitalism in actual economies: an economy is capitalist to the extent that it features comprehensive private property and free-market pricing, and excludes coercion. Capitalism is one end of a spectrum whose opposite end is socialism, economies in between are ‘mixed’. An economy’s location on the spectrum depends mainly on the extent of coercion operating in it. Coercion is the key measure, because infringements of private property and obstructions of free-market pricing both require coercion, typically exercised through government regulation, supervision, taxation, or direct expropriation.

Strictly speaking, a society with a government cannot be completely capitalist, insofar as government necessarily involves coercion and public property. For convenience, however, a society with a government may be allowed the unqualified label ‘capitalist’ if – but only if – the government is minimally coercive: it can be at most a ‘night watchman’. As such, it must do nothing but protect people and their property against coercion, typically by providing police and military services to oppose aggression, and courts to enforce contracts. Until around the 1930s, the United States would have largely qualified. To the extent that a
government does anything other than protect negative liberty, the economy is mixed. Examples of mixed economies include the contemporary United States and the United Kingdom.  

7. Definitive Corrections

By identifying the fundamental structure of capitalism, the essential definition highlights ways in which many criticisms of capitalism are misguided, inapplicable or false.

Significantly, the essential definition assumes nothing about capitalism’s inputs or outcomes. In particular, it does not identify the sorts of people who will engage in economic activity or emerge from it: capitalism neither presupposes nor necessarily promotes *homo economicus*. Far from specifying the substantive outcomes that capitalism yields, the essential definition shows that capitalism is not the sort of thing that could guarantee or even intend any particular ‘patterned’ result. Unlike centrally planned systems, capitalism has no commanding authority capable of forming an intention or pursuing an objective: capitalism cannot be directed at any purpose. Capitalism does not promise ideal distributions, or the greatest good for the greatest number, or any notion of justice or fairness. Although the spontaneous order that emerges from the workings of capitalism is likely to satisfy the preferences it reflects better than any imposed order could (Hayek 1945, p. 525), that order will only be better than others in respect of its responsiveness, and its exclusion of coercion: it is not one whose specific content will necessarily be desired, or considered desirable, by any, far less all.

Critics who denounce capitalism for not achieving positive goals, or for necessarily promoting outcomes they denounce – e.g., greed (Moore 2009) or acquisitiveness, alienation or inequality – are thus fundamentally mistaken. The outcomes that ensue from the workings of capitalism are not necessary, and neither are nor could be the choice or responsibility of capitalism as a system. Holding capitalism responsible for them, is as misguided as blaming the thermometer when the patient has a fever. Though capitalism is frequently blamed, what the critics really oppose are the free individual choices that capitalism allows and automatically reflects. That the choices and freedom to choose are their real target, is confirmed by the reforms that are typically prescribed: they would regulate or prohibit the expression of personal preferences.

Another unfounded objection that the definition exposes, is the charge that ‘Capitalism is tyrannical, exploitative and dehumanizing . . .’ (OccupyWallSt 2013). The explicit exclusion of coercion ensures that capitalism cannot be tyrannical; nor can it be exploitative in the derogatory sense. Because capitalism excludes coercion, capitalist transactions occur only if each party values the item or service obtained more than that which is given up to acquire it. Unlike zero sum games, in which one person’s gains are only made at the expense of someone else’s losses, capitalist transactions are ‘win-win’, positive sum games.

The definition also makes it clear that the target being attacked as capitalism often is something quite different. Frequently, the target is a doctrine that is simply presumed to be essential to capitalism. Straw men attacked include ideologies (e.g., ‘free-market fundamentalism’ (Krugman 2010)), and academic disciplines (e.g., ‘Utopian economics’ (Cassidy 2010)). Far from explaining or justifying capitalism, however, the ideas criticised are typically neither necessary nor sufficient for it.
The definition also helps rebut allegations that capitalism is the cause of many contemporary problems. All effects require the coming together of a jointly sufficient set of antecedent conditions. What counts as the cause of an effect is usually a function of the relative distinctiveness and manageability of the various elements of the causal set. The camper’s insufficiently extinguished cigarette is considered the cause of the forest fire, even though no fire would have ensued in the absence of dry trees and oxygen. Campers’ activities represent an identifiable change to the background conditions, and are more variable and controllable than natural forces; human actions are, moreover, the locus of agency and moral responsibility. It would make no sense to blame the trees for being dry, or oxygen for supporting combustion. Spontaneous orderings similarly lack agency and typically constitute background conditions: language is less plausibly the cause of false statements than liars.

There is thus good reason not to identify capitalism as the cause of mixed economies’ problems. As argued above, capitalism has no commanding authority; the spontaneous order it engenders is not intended. In contrast, government action has identifiable authors, and is deliberately brought about: legislation and regulation are intended, even if their consequences often are not. Moreover, at least in principle, it should be easier to restrict government action than to shift widely dispersed preferences. Identifying coercive government action as the cause facilitates both diagnosis and cure.

Consider the claim that the financial crises of 2007–2009 were caused by and ‘represented a failure of capitalism’ (Cassidy 2010, p. 11. See also Krugman, Posner, etc). By clarifying the nature of capitalism, the essential definition lends credence to the opposing view, that government action was the cause of the crises. Persistent government regulation of housing and financial services restricted key uses of private property, and skewed operation of the price system; government action limited individual and institutional choices, and obstructed market corrections. Moreover, it did so by employing the coercion that capitalism necessarily excludes. Blaming capitalism for the crisis thus seems doubly unjust.

Similar arguments hold against blaming the defects of US health care on capitalism. Government obstructions to genuinely capitalist health care started with federal wage and price controls imposed during World War II; restrictions continue via insurance regulation and Internal Revenue Service rulings, Medicare, Medicaid and the Affordable Care Act. Favouring employment-related health insurance, and separating payers from users, all have constituted deliberate, coercive government interventions in the provision of US health care. They are plausibly considered the cause of its undoubted defects.

8. Conclusion

Despite the widespread failure of capitalism’s opponents and advocates to define capitalism, capitalism’s essential elements can be identified and expressed in an operational definition: capitalism is an economic system characterised by comprehensive private property, free-market pricing, and the absence of coercion. By specifying capitalism’s essential features, the definition distinguishes capitalism itself from its causes and consequences, its preconditions and common accompaniments. The definition also clarifies the relation between capitalism and phenomena with which it is frequently associated and confused, including profit-seeking, capital, competition, business, and democracy.
The essential definition thus helps to prevent capitalism proper from suffering guilt by association with perverted variants, and enables capitalist economies to be clearly differentiated from other kinds. The definition shows that unlike planned or mixed economies, capitalist economies have no central control or commanding authority capable of forming an intention or pursuing an objective. It is therefore unreasonable to criticise capitalism either for failing to produce patterned outcomes, or for encouraging any kinds of conduct. By making it clear that capitalism merely allows outcomes to happen, rather than bringing them about, the essential definition reveals that critics’ real opposition is often to personal preferences and individual freedom.

By identifying the essential features of capitalism, the definition also facilitates rebutting criticisms of it. If the target being criticised is not an economic system characterised by comprehensive private property, free-market pricing, and the absence of coercion, then the criticism is not about capitalism. The criticism is, instead, typically about the result of some complex interaction between capitalism and other factors. In such cases, capitalism cannot be the sole source of the problem, and is seldom properly identified as the cause of it. Other factors, and particularly government interventions of various kinds, are normally the main culprit. The remedy then is clear. As Ayn Rand proclaimed, when it is

\[ \ldots \text{said that capitalism has had its chance and has failed, let them [its critics] remember that what ultimately failed was a ‘mixed’ economy, that the controls were the cause of the failure, and that the way to save a country is not by making it swallow a full, ‘unmixed’ glass of the poison which is killing it.} \text{(Rand 1963a, p. 53)} \]

The appropriate response is not to restrict capitalism, but to release it: replace coercive intervention with the individual liberty that capitalism both requires and respects.

Notes

1. This paper is an abridged, revised version of a Draft Working Paper produced for The Mercatus Center’s Project for the Study of American Capitalism. I am grateful for the Center’s support and feedback.
2. For a list of many of the synonyms of crony capitalism, see ‘A Taxonomy of Political Capitalism’ in Bradley (2009, pp. 332–5).
3. For example, ‘Far from being a machine for bringing people out of poverty, capitalism perversely condemns millions to poverty in the midst of the means sufficient for creating an abundance for all . . .’ (People 1985, p. 2).
4. According to Iranian president Mahmoud Ahmadinejad, speaking at a 2011 meeting of the Economic Cooperation Organization, ‘The main factor behind the destruction of the environment is the greed and the ceaseless avarice and insatiable hunger of the world’s capitalists.’ (Johnson 2011)
5. See, for example, Krugman (2010), in which he quotes Quiggin (2010), and Harman (2010).
7. See, for example, Wittgenstein’s discussion in paragraph 73 of the *Philosophical Investigations* (1968, pp. 34–5).
8. Famously invoked by Gilbert Ryle (1949, p. 16) to illustrate a category mistake.
9. The Aristotelian understanding of definition being applied here is expressed in passages scattered throughout the body of his work, including *Posterior Analytics*, *Metaphysics*, *Topics*, and *Categories*. A collection of relevant passages can be found in Clark (2009). For Aristotle, definitions state the essence (formal cause) of that which is being defined, and typically do so in terms of *genus* and *differentia*.
10. According to Aristotle (*Categories*, Part 4, 1b25-2a4), accidents are of nine kinds: quantity, quality, relation, location (in space), time, position (posture, attitude), condition (*habitus*), action, and passion (being affected, acted upon).
11. ‘. . . abstraction is an intellectual process by which we recognize what is literally shared by a multiplicity of particular things.’ (Oderberg 2007, p. 83)
12. Karl Popper’s views will be discussed below. For a refutation by counterexample of Wittgenstein’s key claim (1968, pp. 31 ff) that ‘game’ cannot be defined, see Suits (2005). To settle for a mere family resemblance among instances rather than an essential definition specifying necessary and sufficient conditions would be to shirk philosophical work that may be difficult, but should be feasible.

13. Essentialism is the metaphysical doctrine that essences are real, and account for identity and function.


15. See, for example, Oderberg (2007, especially pp. 30–8) and Brody (1980, especially pp. 148–51).

16. Despite the belief of many non-philosophers that Popper’s ‘falsificationism’ constitutes a coherent philosophy of science, his main writings are, at best, equivocal. As Haack has argued, ‘. . . the authentic Popper’s original and distinctive claims about science are indefensible; and the shadow Popper’s more defensible ideas are not original.’ (2012, Abstract) The indefensibility consists in Popper’s fundamental irrationalism: ‘. . . Popperite philosophy abhors the very idea of scientific success, and implies that there never has been, or could be, any knowledge or discovery at all.’ (Stove 2004, p. 48) The irrationality is, however, disguised by the use of two rhetorical techniques. The first, is the ‘neutralizing of success-words’ (Stove 1982, Chapter I): words implying cognitive achievement are variously surrounded with ‘scare quotes’, or simply used ironically, as if they did not in fact imply cognitive achievement. The second device is ‘sabotaging logical expressions’ (Stove 1982, Chapter II), in part by embedding them in epistemic contexts. The respect accorded to Popper on the basis of the doctrine of falsification is thus often misplaced, as is any consequent credence given to his supposed refutation of essentialism.

17. For a discussion of why motives are inadequate for defining actions, see Sternberg (2000, pp. ix, 94–5). Briefly, the same motive often leads to different activities; the same activity can be pursued from very different motives. ‘Love of money’ undoubtedly does motivate some capitalists, but it also motivates such diverse (non-capitalist) activities as marrying for money, stealing, and studying numismatics. Conversely, people are motivated to engage in capitalist activities by such non-pecuniary motives as peer pressure and pride, fashion and curiosity, and sincere wishes to solve problems and be productive.

18. For example, Mankiw (2004) and Parkin (2012).

19. I am grateful to the Mercatus Center and Candace McTeer for assistance in researching economic textbooks, and the literatures of comparative economic systems and contemporary political economy.

20. Unless otherwise specified, ‘a society’ is used in this paper simply to refer to a group of people in a geographical area. It does not presuppose the existence of government, or refer exclusively to a specifically social system.

21. Perhaps because it was too primitive, or lacked material scarcity because of something like advanced nano-technology.

22. Approximately 50 were considered in abstracting out the definition offered below.

23. This method has been used to offer essential definitions of other things that are seldom understood strictly or defined precisely, for example business (Sternberg 2000, p. 32) and corporate governance (Sternberg 2004, p. 28).

24. A democratic political system allows the governed some say in how they are governed, typically through elections. A democratic social system is one that has few inherited or official barriers to mobility. A social system that is democratic need not be democratic politically, or vice versa.

25. Modern representative democracy and capitalism both grew dramatically in England in the nineteenth century. To the extent that traditional restrictions and monarchical power were replaced by popular suffrage, the move towards social and political democracy expanded individual liberty, and favoured the development of capitalism. Conversely, the growth of capitalism, and wider distribution of property, spurred the demand for social and political democracy. Individuals with an independent base and greater wealth were less willing to respect hereditary barriers or tolerate authoritarian rulers, and were able to demand more participation in, and accountability from, government. In those historical circumstances, democracy and capitalism were mutually supporting.

26. All that (political) democracy guarantees (even conceptually) is government by the people, the demos; it does not limit what that government may do, or prevent a ‘tyranny of the majority’ (Tocqueville 1835, Part I, Chapter 15). Electorates can and do vote to undermine both liberty and capitalism. In the UK and the US, once the models for free-market capitalism, and still at least nominally democratic, the degree of economic freedom has declined in response to electoral preferences. According to the 2014 Index of Economic Freedom (Wall Street Journal and The Heritage Foundation 2014 (‘WSJ and Heritage Foundation 2014’)), the US is . . . no longer one of the top 10 freest economies. . . . The U.S. is the only country to have recorded a loss of economic freedom [in] each of the past seven years. The overall U.S. score decline from 1995 to 2014 is 1.2 points, the fourth worst drop among advanced economies.

The situation is only marginally better in 2015: Although the precipitous downward spiral in U.S. economic freedom since 2008 has come to a halt in the 2015 Index, a 1.6-point decline in overall economic freedom over the past five years reflects broad-based deteriorations in key policy areas, particularly those related to upholding the rule of law and limited government. (WSJ and Heritage Foundation 2015)
Similarly, ‘Over the 20-year history of the Index, the U.K.’s economic freedom has declined by 3 points, the second worst performance among advanced economies.’ (WSJ and Heritage Foundation 2014)

27. The term popularised by Isaiah Berlin (1958) is used here with a somewhat different meaning, which calls on the analysis provided by Sternberg (2008). For discussions of why characterising negative liberty other than as the absence of human coercion is problematic, see Rothbard (1998, pp. 215–28), and Taylor (1979). Throughout this paper, ‘freedom’ and ‘liberty’ are used interchangeably.

28. See Norms of Liberty: A Perfectionist Basis for Non-Perfectionist Politics for an extended argument that ‘There is and can be no dichotomy between a human being’s natural right to life and liberty and his right to property.’ (Rasmussen and Den Uyl 2005, p. 106).

29. The ‘right to property’ is the right to own property that is legitimately acquired through discovery or uncoerced transfer, not a ‘positive’ entitlement to be given property already owned by others.

30. Coercion typically involves a deliberate intention to change the object’s actions or attitudes; the physical force it necessarily involves need not be violent.

31. Equivalent to the Hohfeldian incident ‘privileges’; see Hohfeld (1913).

32. As characterised by AM Honoré (1961), but without the prohibition of harmful use.

33. A condition necessary to ensure the absence of coercion; it is typically satisfied by corporations but not by governments.

34. E.g., competing private protection agencies. For a discussion of how these might operate see, e.g., Nozick (1974, pp. 10–15) and Friedman (1995, pp. 155–72).


36. Profits as understood in economics are what result when the total revenues of an investment exceed its total costs. As such, they are distinct from accounting profits, which typically reflect only money costs, and ignore opportunity costs (Bannock et al. 1992, p. 345).

37. For the relation between business and profits, see Sternberg (2000, especially pp. 30–61).

38. Consider the reasons cited by Luigi Zingales, Robert C. McCormack Professor of Entrepreneurship and Finance at the University of Chicago, for leaving his native Italy in 1988: ‘I was trying to escape a system that was fundamentally unfair . . . a country where there is virtually no meritocracy and competition is considered a sin.’ (2012, p. x)

39. Understood not historically, but as an economic system characterised by the absence of private property, with prices set and assets allocated by command and control. To the extent that control is exercised without the unanimous, express consent of all subject to it, socialism involves coercion.

40. For an explanation of how taxation is coercive, see, for example, Chodorov (1947) and Rothbard (1998, especially Chapters 22–4).

41. Until the 1930s, the government share of US gross national product (‘GNP’, the figure then used as the main measure) was under 5%. (Tullock 1993, Chart 1) For convenience, societies whose government share of the nation’s gross domestic product (‘GDP’) is under 5% can also be labelled capitalist. Some of the limits of using such statistics to measure coercive government are described by Robert Higgs (1983).

42. According to the 2014 Index of Economic Freedom, US general government expenditures were ‘slightly over 40 percent of GDP’, and UK 2014 public expenditures had fallen to 48.5 percent of GDP. (WSJ and Heritage Foundation 2014) The comparable figures for 2015 (‘well over one-third’ for the US, 48.2% for the UK) were not much better. (WSJ and Heritage Foundation 2015)

43. ‘Let us call a principle of distribution patterned if it specifies that a distribution is to vary along with some natural dimension, weighted sum of natural dimensions, or lexicographic ordering of natural dimensions. . . . we extend the use of “pattern” to include the overall designs put forth by combinations of end-state principles.’ (Nozick 1974, p. 156; emphasis in original)

44. Despite critics’ false assumptions to the contrary: e.g., ‘We expect an abstraction called “the market” to produce the common good . . .’ (Williams 2008).

45. It is questionable whether evaluations of ‘justice’ are ever applicable to capitalism as a system: Moral evaluations of ‘justice’ or ‘fairness’ properly apply only to moral agents – persons – and their actions, not to natural forces, objects or artefacts. It may be inconvenient or unfortunate that a thermometer is inaccurate, or that Manchester’s climate is colder than Miami’s, but it is not just or unjust, fair or unfair. Equally ineligible for moral evaluation are the distributions that reflect the spontaneous orderings of human interactions. Such orderings result from human activity, but are not the product of human design. It makes no sense to impute fairness to traffic patterns, or to deem it just (or unjust) that the English alphabet has more letters than the Greek. It is equally mistaken to attribute fairness or injustice to market outcomes or economic conditions. The distributions of resources and rewards that ensue from the operation of free markets are morally neutral. (Sternberg 2013b, p. 395)

The inapplicability extends to more than ‘patterned’ notions of justice. ‘Historical’ (Nozick 1974, p. 153) understandings of justice reduce it to denoting formal compliance with rule(s). Even then, however, the moral evaluation applies more properly to the rules that have been chosen or endorsed by moral agents.

46. Even Hayek acknowledged freely that the signals given by the price system are not ‘perfect’ (1945, p. 527).
47. Insofar as inequality (or even increased inequality) is a frequent outcome of capitalism, it is because the inputs (individuals’ preferences and capabilities for pursuing them) are unequal and unrestricted.

48. As Matt Taibbi (2009) ironically summarised Fareed Zakaria’s ‘Capitalist Manifesto’, ‘Laissez-faire capitalism doesn’t rip off people, people rip off people!’

49. See, for example, Rothbard (1993).

50. As distinct from the positive sense of (productively) ‘putting to use’.

51. For a fuller discussion of causation see, for example, Wright (2001) and Wright (2011).

52. Attributions of problems to deregulation need particularly careful evaluation. Typically, what is called ‘deregulation’ is only re-regulation; rather than completely removing government intervention, it merely changes it, often in ways that further impede free markets. Consider, for example, the changed regulation of the energy markets to which Enron responded, with catastrophic results. (Bradley 2012)

53. Even when they are the result of a committee, its members and their contributions are identifiable.

54. See, for example, Booth (2009), Woods (2009), Allison (2011), Allison (2013), and Sternberg (2013a).

55. See, for example, Gratzer (2006) and Forbes and Ames (2011).

References


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