

# Is Capitalism the Most Effective Way to Advance Society? Yes!

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# What is capitalism?

## ▶ Capitalism

- Private ownership of the means of production (and everything else)
- Resource allocation by markets and prices
- Mobility of capital and labor
- High levels of economic freedom
- Other names: free enterprise, market economy, private enterprise system, liberalism, free society

## ▶ Socialism

- State ownership of the means of production
- Resource allocation by governmental fiat
- No mobility of capital or labor
- Absence of economic freedom
- Not: welfare state, collective action, “being sociable”

# Types of capitalism

## ▶ Pure free-market capitalism

- Night-watchman state (Smith, Mill, Hayek, Friedman)
- Private ordering (Rothbard, D. Friedman, Ellickson)

## ▶ Mixed economy

- Some state-owned enterprises
- High levels of social welfare spending (e.g., Nordic countries)
- Substantial economic regulation

## ▶ Socially responsible capitalism

- Stakeholder capitalism
- Cooperatives, communes, kibbutzim, social ventures, household production

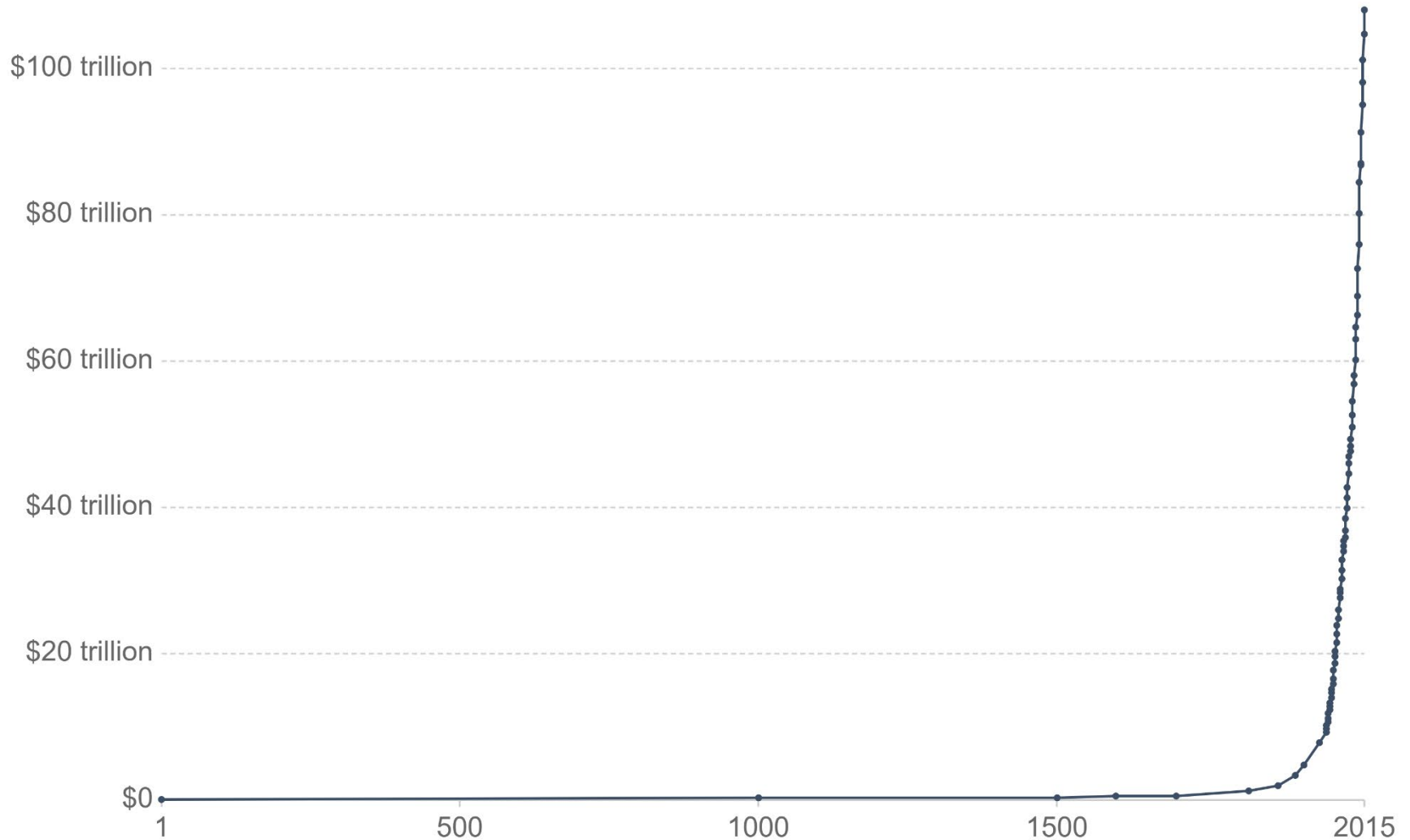
## ▶ Crony capitalism

- State intervention to favor politically connected firms

Claim 1: (Entrepreneurial) capitalism is the largest wealth creator in human history.

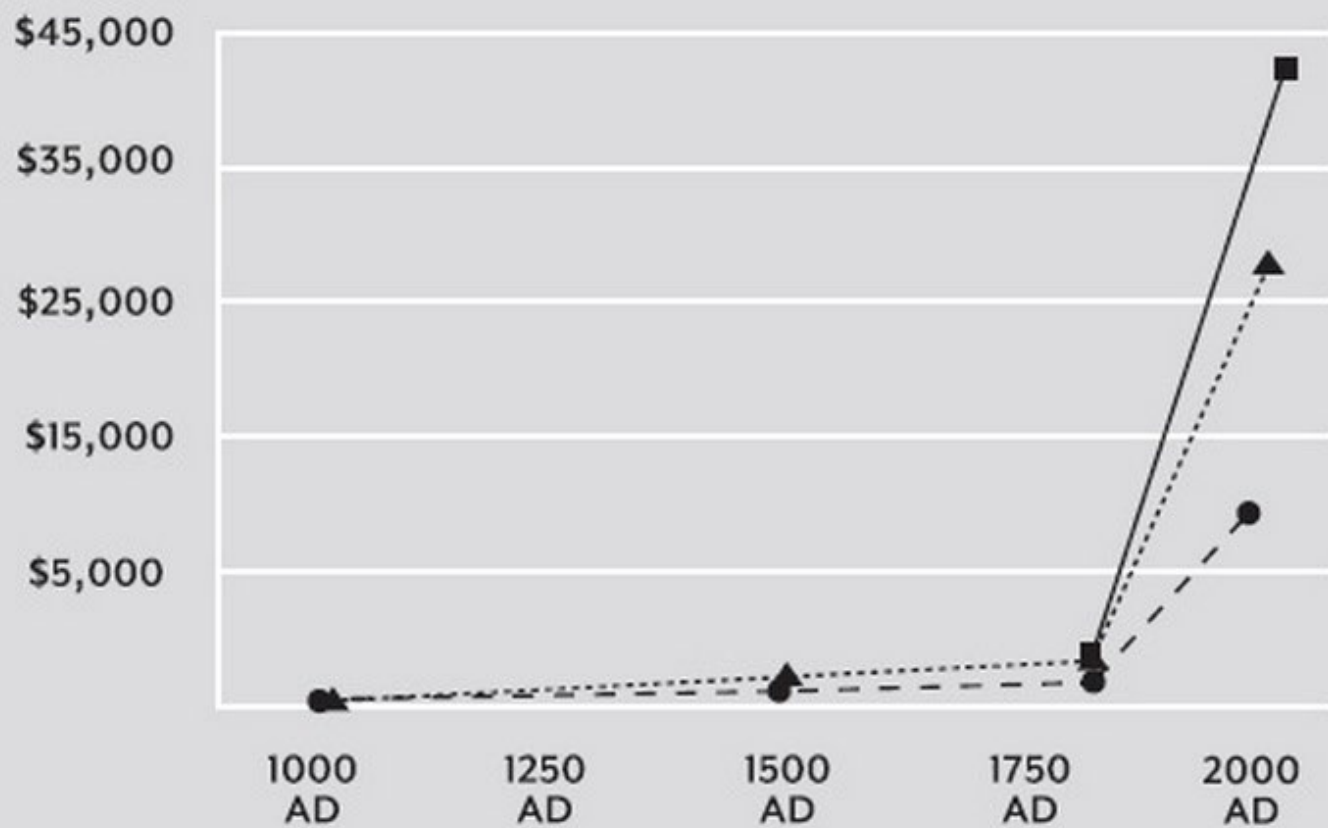
# World GDP over the last two millennia

Total output of the world economy; adjusted for inflation and expressed in international-\$ in 2011 prices.



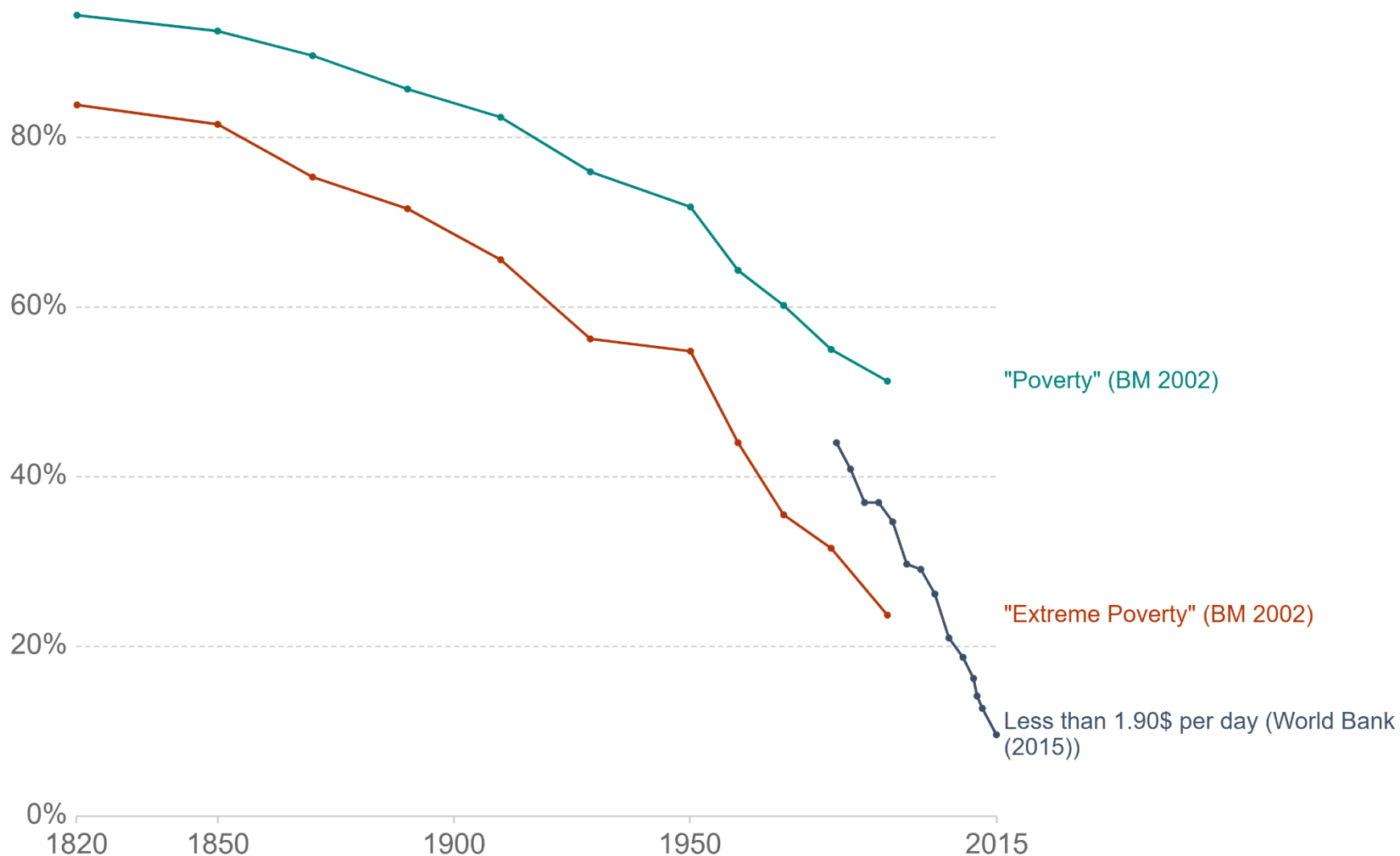
## GDP PER PERSON

● *The World*   ▲ *Europe*   ■ *The US*



\*ALL FIGURES IN 2012 DOLLARS

# Declining global poverty: share of people living in extreme poverty, 1820-2015

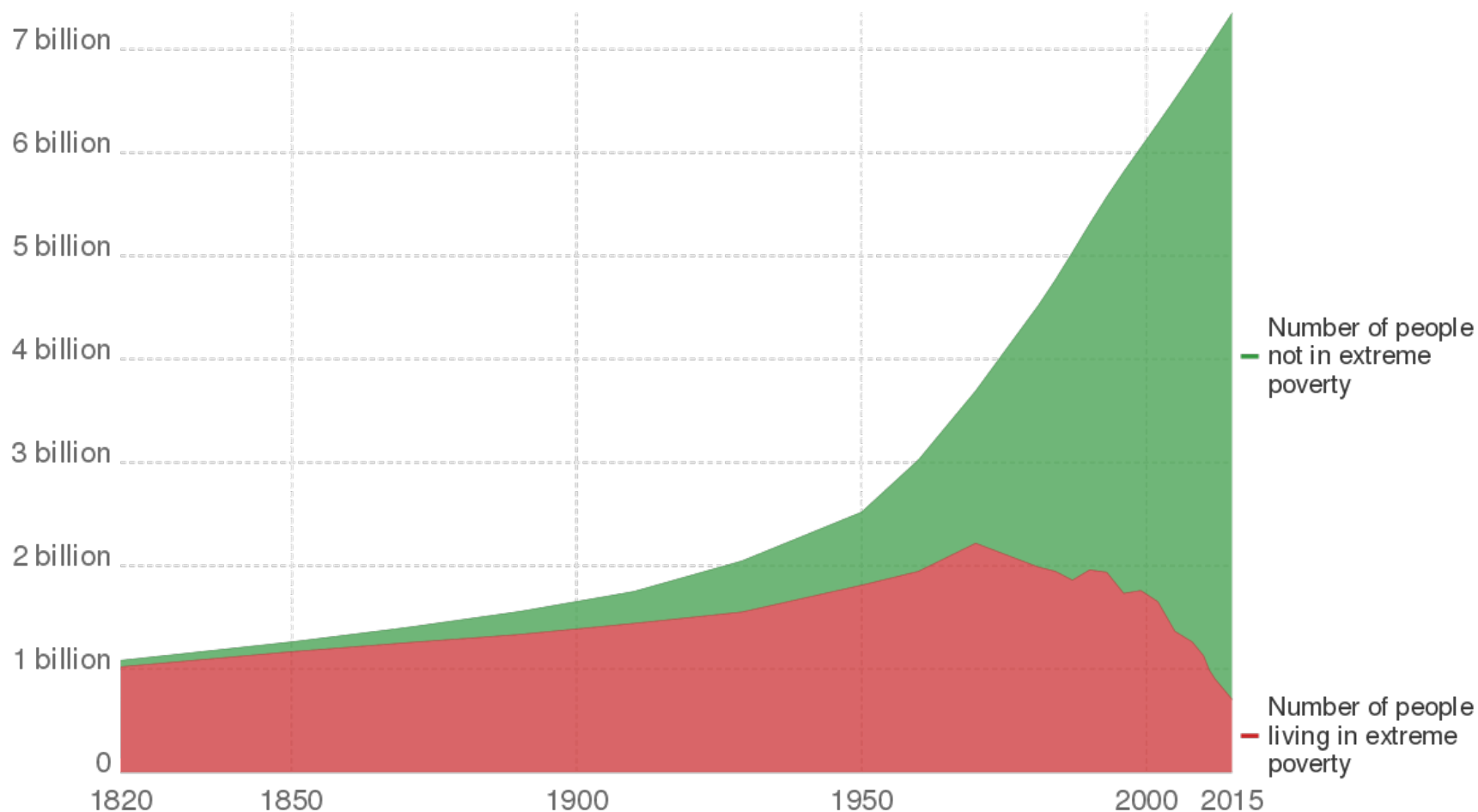


Source: Bourguignon and Morrisson (2002) and World Bank (PovcalNet) (2015)

OurWorldInData.org/extreme-poverty/ • CC BY

# World population living in extreme poverty, 1820-2015

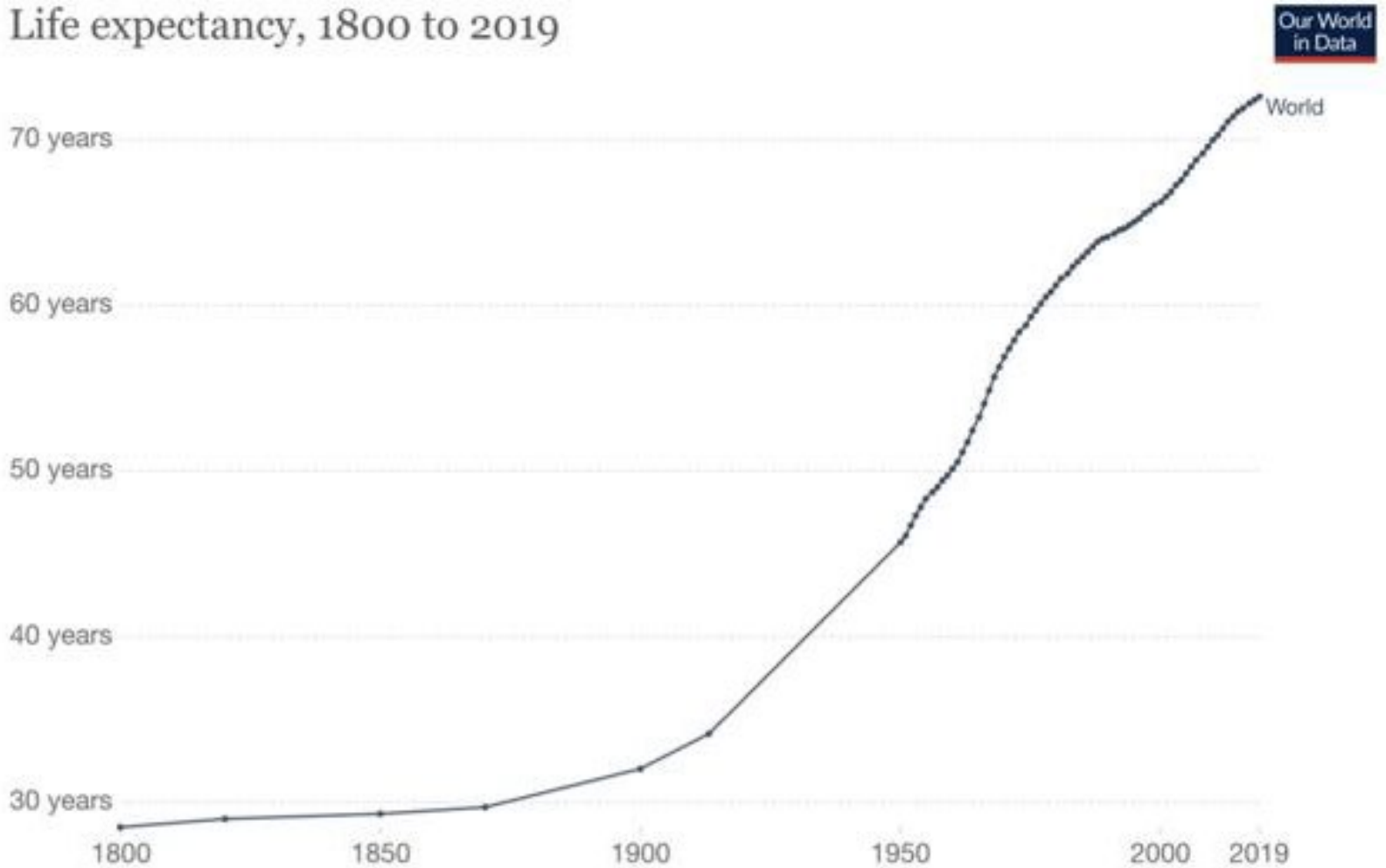
Extreme poverty is defined as living at a consumption (or income) level below 1.90 "international \$" per day. International \$ are adjusted for price differences between countries and for price changes over time (inflation).



Source: World Poverty in absolute numbers - OWID based on World Bank (2016) and Bourguignon and Morrisson (2002)



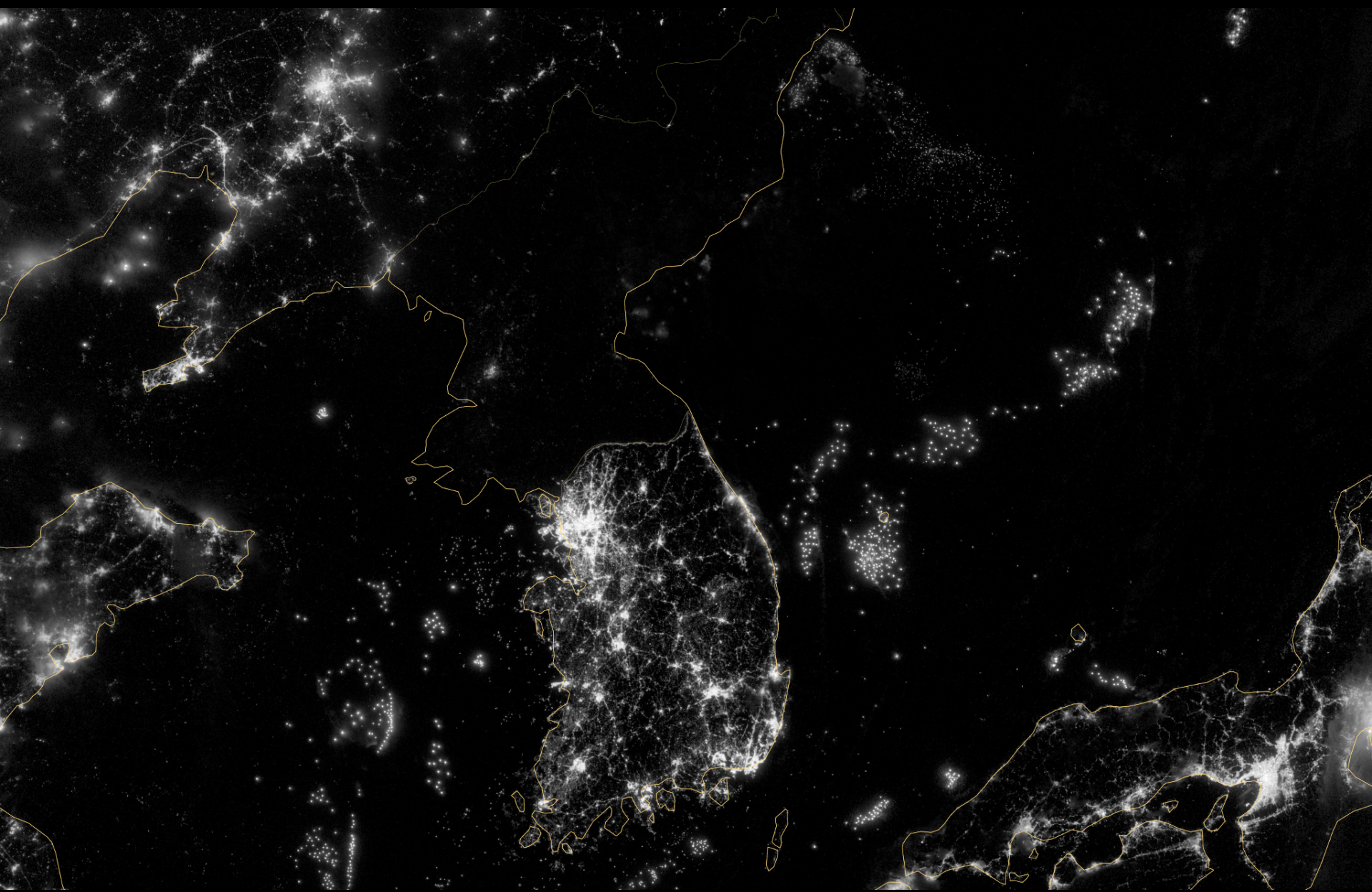
# Life expectancy, 1800 to 2019



Source: Riley (2005), Clio Infra (2015), and UN Population Division (2019)

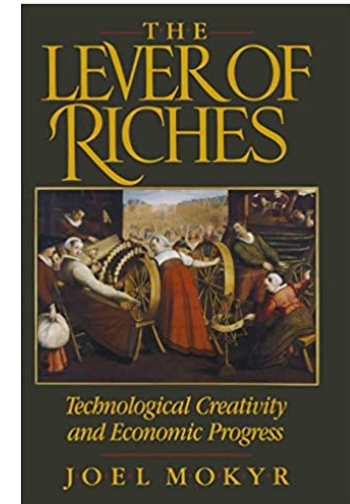
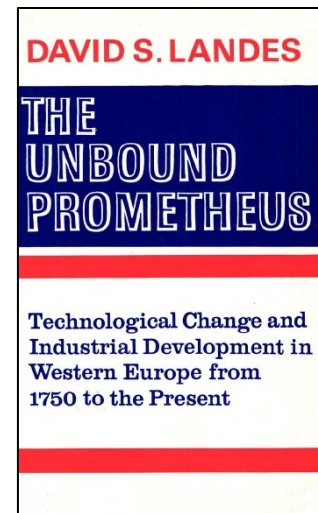
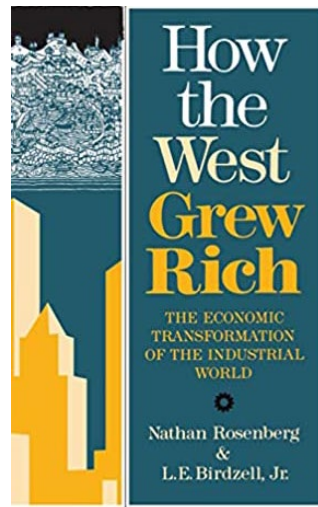
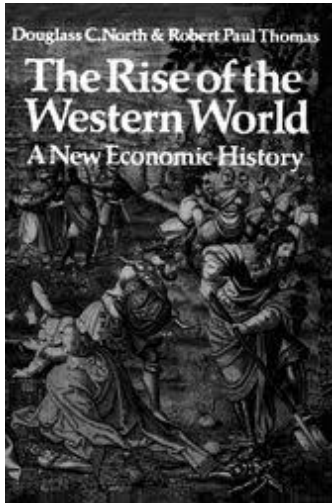
OurWorldInData.org/life-expectancy • CC BY

Note: Shown is period life expectancy at birth, the average number of years a newborn would live if the pattern of mortality in the given year were to stay the same throughout its life.



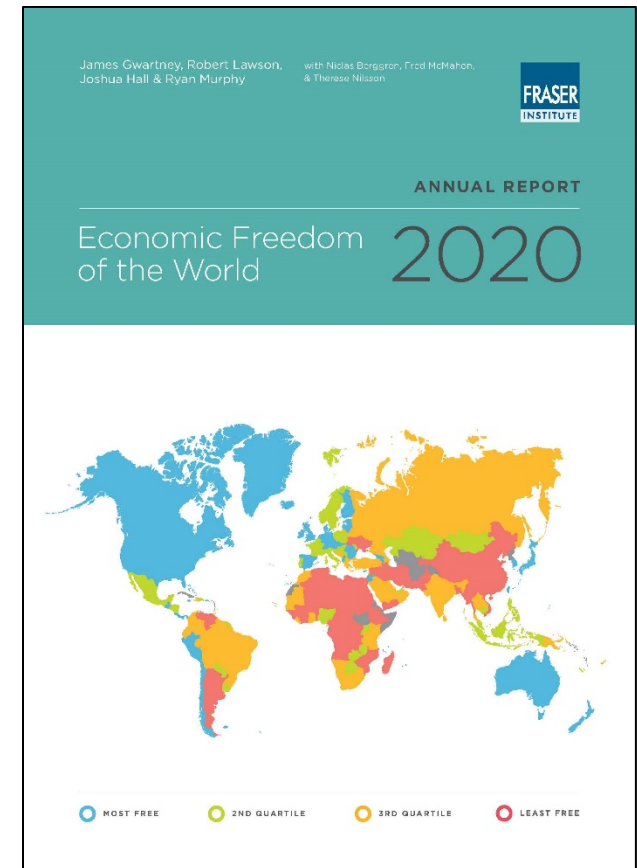
# The “European miracle”

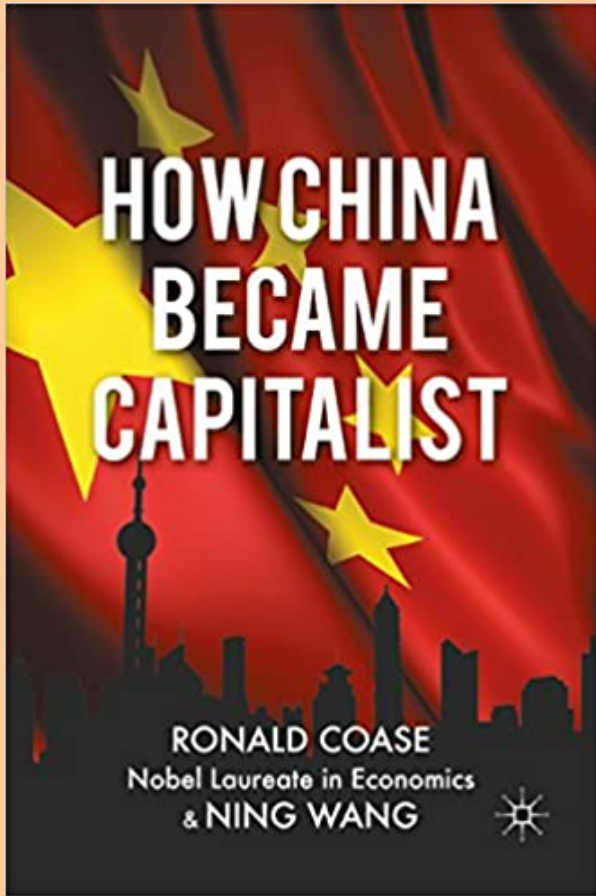
- ▶ Private property
- ▶ Limited government via divided sovereignty
- ▶ The rule of law
- ▶ A culture promoting entrepreneurship and innovation



# Economic freedom

- ▶ Comprehensive data series from Fraser Institute, World Bank, other sources
- ▶ Positively and significantly correlated with
  - GDP and GDP per capita
  - Innovation and economic growth
  - Health and well-being
  - Social, political, and cultural gains
  - Quality of life





Leaders

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Land reform

# Who owns what?

Enforceable property rights are still far too rare in poor countries



Sep 12th 2020



“The blueprint for a new industrial revolution.”  
—THE TIMES (LONDON)

# THE MYSTERY OF CAPITAL

WHY CAPITALISM TRIUMPHS IN THE WEST AND FAILS EVERYWHERE ELSE

# HERNANDO DE SOTO

# Claim 2: There is no feasible alternative to capitalism.

## Die Wirtschaftsrechnung im sozialistischen Gemeinwesen.

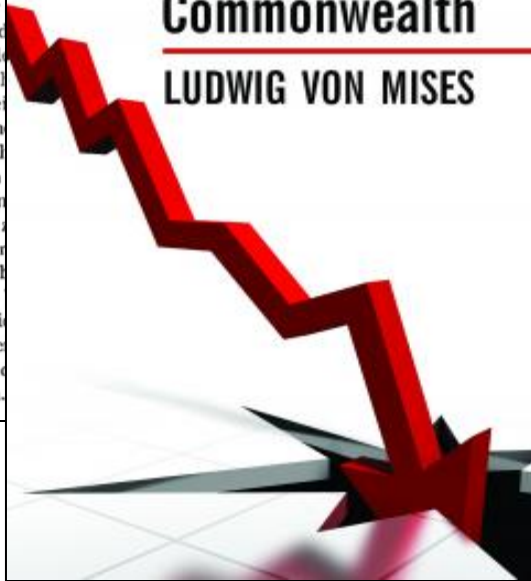
Von


LUDWIG MISES.

Einleitung S. 86. — I. Die Verteilung der Konsumgüter im sozialistischen Gemeinwesen S. 87. — II. Das Wesen der Wirtschaftsrechnung S. 93. — III. Die Wirtschaftsrechnung im sozialistischen Gemeinwesen S. 107. — IV. Die Wirtschaftswortung und Initiative im gemeinwirtschaftlichen Gemeinwesen S. 110. — V. Die jüngste sozialistische Doktrin und das Problem der Wirtschaftswortung S. 111. — Schluß S. 119.

Viele Sozialisten haben sich mit diesen Fragen befaßt, haben es nie versucht, unter denen die Menschen wirtschaften. Andere wieder haben sich sehr mit der Vergangenheit und Gegenwart befaßt, haben sich bemüht, ein System der Wirtschaft der Gesellschaft aufzustellen. Sie schenken den ökonomischen Verhältnisse der »freien Welt« regelmäßig unterlassen, die ätzen immer mit Erfolg — bekundet die der angestrebten sozialistischen Wirtschaft den farbenprächtigen Schilderungen der eigentlich Oekonomischen immer in ihrem Schlaraffenland die gebührend in den Mund fliegen werden, als wären sie zeigen, auf welche Weise dieses System Wo sie im Oekonomischen deutlich sie schnell Schiffbruch — man es Tauschbank-Phantasien —, so es logischen Schnitzer aufzuzeigen.

## Economic Calculation in the Socialist Commonwealth LUDWIG VON MISES

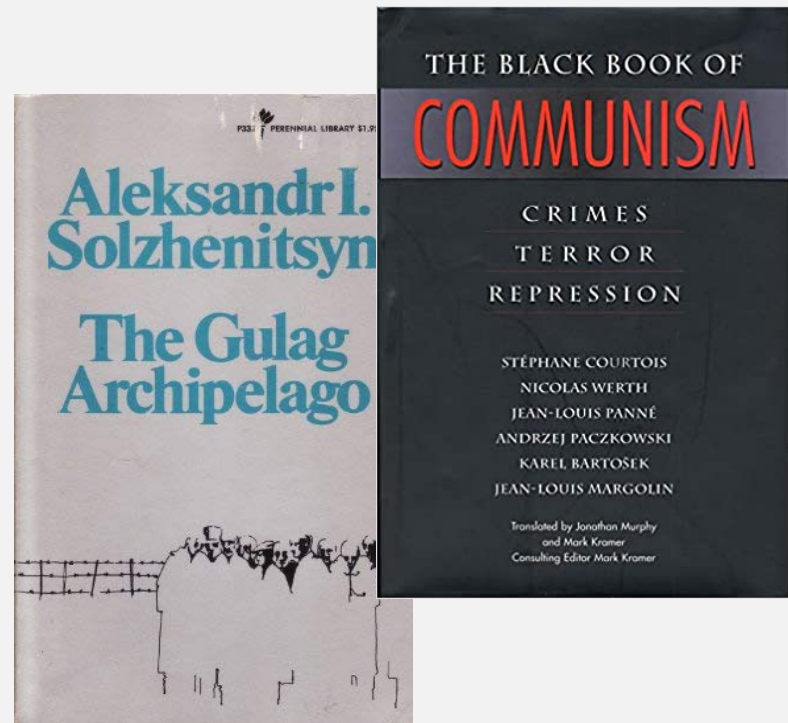
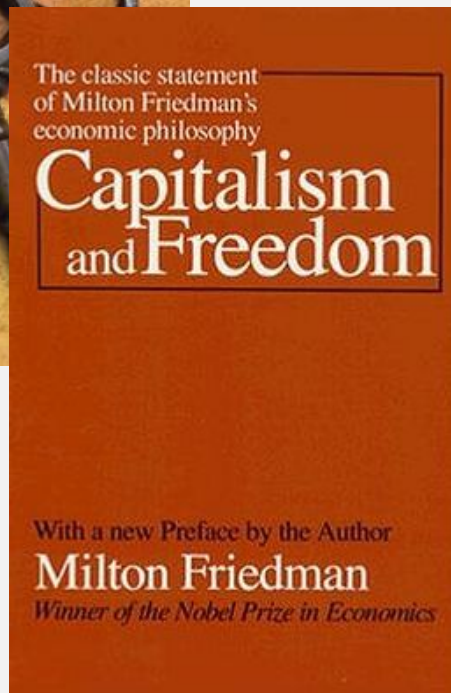
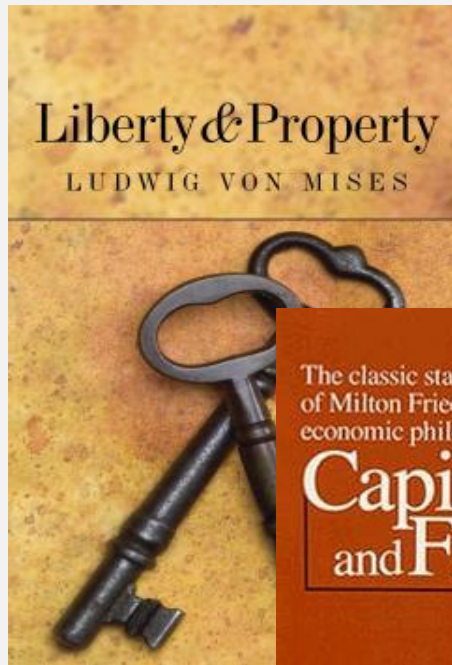


A portrait of Elon Musk in a dark suit and white shirt, looking slightly to the left. The background is a vibrant space scene featuring a purple and blue nebula and a field of stars.

*If you dont make stuff  
There's no stuff*

*- Elon Musk*





Socialist society forbids “capitalist acts between consenting adults” (Nozick, 1974).

# Claim 3: The alleged defects of capitalism are common to any system of social organization.

- ▶ The Nirvana fallacy (Demsetz, 1969)
- ▶ Comparative institutional analysis (Coase, Williamson)
  - Health care
  - Education
  - Environmental protection
  - Inequality
  - Innovation
- ▶ Capitalism FTW!



# Moving forward

Research question: What is the role of the institutional environment in promoting a dynamic, entrepreneurial capitalism?

- ▶ Legal and political environment
- ▶ Social and cultural environment
- ▶ Mechanisms to reduce cronyism

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POINT ↔  
← COUNTERPOINT

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**The Context of Entrepreneurial Judgment:  
Organizations, Markets, and Institutions**

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**ABSTRACT** The economics and management literatures pay increasing attention to the technological, competitive, and institutional environment for entrepreneurship. However, less is known about how context influences the judgment of entrepreneurs. Focusing on the emerging judgment-based approach to entrepreneurship, we argue that economics can say much about how the organizational, market, and institutional context shapes entrepreneurial judgment. We describe entrepreneurs as individuals who deploy scarce, heterogeneous resources to service customer preferences at a profit. Because of uncertainty, this process is essentially experimental, and context influences the experimental process. Thus, entrepreneurs will seek to design the internal organization of the firm so that it facilitates internal experimentation. Moreover, the market or task environment determines the need for experimentation (e.g., how fast do consumers preferences change, how does technology evolve, which systems

