

# CAPITALISM REBORN

The Search for Liberty,  
Justice, and Equality

By

David W. Scudder

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Email: [dscudder@aureus-asset.com](mailto:dscudder@aureus-asset.com)

I think that Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any other system in sight. (John Maynard Keynes, 1926)

Democracy is that form, and substance of government, whose leading object is, to elevate the condition of man—to lift artificial weights from all shoulders—to clear the paths of laudable pursuit for all—to afford all, an unfettered start, and a fair chance in the race of life. (Abraham Lincoln, 1861)

## Four Varieties of Capitalism

- Democratic Market Capitalism
- Laissez-Faire Capitalism
- Crony Capitalism
- Autocratic State Capitalism

## Economic/Political Progress

Over past 250 years has been extraordinary  
Huge gains in wealth and life expectancy  
Shared more or less equally

In past 50 years, much more uneven distribution  
Top 10% in US kept close to 90% of gains  
China very similar

Political discontent much greater

Founder of Democratic Market Capitalism, Adam Smith

Two Books: Theory of Moral Sentiments, Wealth of Nations

TMS: Human Psychology

- Self-love, desire to help others and to receive praise  
Empathy

WN: Commercial Society

- Division of labor
- Invisible hand
- Education as crucial
- Wealth comes from labor, not gold

Three Great Principles:

- Liberty
- Justice
- Equality

## Laissez-Faire Capitalism

Formed in France in 18<sup>th</sup> Century

Agriculture its basis

Smith: “The notions which it inculcates are too narrow and confined”

Recognizes liberty and justice, but not equality

Smith: “Those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments”

## Democratic Struggles

Puritans of New England: only white males could vote  
Contrast with England: 17% of electorate in Britain, over 50% in America

Blacks eventually receive the vote in US after Civil War, but Jim Crow laws in South ensure that no more than 2% of former slaves can vote

Women receive vote in 1920s

## The Gilded Age, 1865-1905

Milton Friedman: “The closest approach that the United States has had to free enterprise capitalism was in the nineteenth century. Anybody was free to put up an enterprise, anybody was free to come to this country.”

In 1913, richest 1% of US population received 20% of national income and owned just under 50% of all wealth.

“The Gilded Age had brought great material advance to America, but it had also brought inequality, polarization, social disarray, and cultured self-centeredness”.



# The Progressive Era, 1915-1970

## Teddy Roosevelt, President 1901-1908

Trust Buster

“The State, and if necessary the nation, has got to possess the right of supervision and control as regards the great corporations, which are its creatures”.

Presidents Harding, Coolidge and Hoover  
Reversion to laissez-faire capitalism  
Major speculative boom

“When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done”. (Keynes)

The Great Depression

Outmoded banking system, US prices dropped 30%, market down 90% from peak

## Franklin Delano Roosevelt, President 1933-1945

“The country needs—and, unless I mistake its temper, the country demands—bold, persistent experimentation—above all, try something.”

New Deal: Social Security, Federal Housing Authority, Fair Labor Standards act  
Southern segregationist senators restrict most benefits to whites

## Dwight Eisenhower, President 1953-1961

“Should any political party attempt to abolish social security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that party again in our political history”.

Communitarianism won out; “we” more important than “I”

Influence of two World War, need to come together

## Transition Decade of the 1960s

In 1960, 79% of Americans express trust in government

Johnson passes Civil Rights and Voting Rights Act, 1964-5

After 1965, percentage of voters believing in an activist government drops to 35%

Start of identity politics

Five challenges: global competition, energy crisis, inflation, Vietnam, Watergate

## Resurgence of Individualism and Special Interests

Milton Friedman (1970): “The Social Responsibility of Business is to Increase its Profits

Lewis Powell (1971): “Attack on American Free Enterprise System”

Robert Bork (1978): “The Antitrust Paradox”

Newt Gingrich, Ronald Reagan

“Between 1980 and 2014, pretax national income grew by 61%. But the income of the poorest half grew by only one percent, while the income of the top 10% by 121%, and the income of the top 1% more than tripled.”

In 1976, there 130,000 estates which paid estate tax; only 2,000 estates a year pay any tax at all now.

Between 1945-80, 70% of all increases in Americans’ incomes went to bottom 90% of earners; since 1980, the top 1% have doubled their share while the bottom 90% share has fallen by 25%.

## Challenges of the Past Several Decades

Education spending by state legislatures cut in inflation-adjusted terms by one-half since 1981

Student debt has soared; influence of for-profit colleges

Politically correct vs. status quo debate

Of 16 million jobs created from 2010-2019, only 3 million did not require a college degree

Charles Murray (early 1990s): “Real wages for low-skilled jobs will increase more slowly, if at all. I fear the potential for producing something like a caste society, with the implication of utter social separation...The Left has been complaining for years that the rich have too much power. They ain’t seen nothing yet.”

## Great Financial Crisis, 2007-2009

Background: savings bank bailout of 1980 cost taxpayers \$2 billion;  
savings and loan rescue of 1989 cost taxpayers over \$150 billion

Everyone failed: economists, government officials, regulators,  
private markets

Warnings of Hyman Minsky

Deregulation all the rage

Alan Greenspan, Larry Summers, Bob Rubin true believers

Housing speculation fueled by easy money, little regulation, new  
and complex financial instruments, blindness of rating agencies

September 2008 political decision to let Lehman fail, disastrous  
consequences

Finally, rescue efforts took hold

Lord Adair Turner (2010): “Good economics is never going to  
provide the apparently certain, simple, and complete answers  
which the pre-crisis conventional wisdom appeared to.”

## Where Are We Now; What Can We Do

Darren Walker, President of Ford Foundation: “Friedman ignored that in a democratic-capitalistic society, democracy must come first.”

Do not turn to socialism, discredited in Russia, China and many other countries

Challenge from autocratic form of capitalism  
Crucial principles of liberty, justice, equality

Liberty: welcome competition and avoid monopoly, welcome an appropriate amount of newcomers, emphasize “wisely managed” capitalism, protect democracy

Justice: protect everyone’s right to vote, have equal access to and equal treatment by public safety officials and organizations, share taxation more fairly and more in line with government needs, adopt attitude that “we” is more important than “I”

Equality: better education for all at fair cost subsidized appropriately by governments, necessary services available at reasonable cost for all, citizens must respect the laws, citizens must respect the rights of others