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# Humane Capitalism IN FOCUS

Towards a Centre–Right Approach

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## Summary<sup>1</sup>

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Following the financial meltdown of 2007–8 and during the ensuing ‘Great Recession’, a chorus of recriminations against the evils of capitalism was heard. To many who had always distrusted the liberal shift in economic policy initiated in the 1980s, the turmoil on the financial markets was the long-awaited confirmation of their fears. Unbridled capitalism, they concluded, was unstable and unfair. The deregulation in recent decades had put the finances of whole nations at the mercy of financiers’ greed and bankers’ profits. Unethical behaviour was rampant in the banking industry. Therefore, tighter regulations were urgently needed to protect the public interest and rein in the forces of globalised capitalism. These convictions provided the moral high ground from which to advocate re-regulation, stimulus packages and ultra-loose monetary policy on both sides of the Atlantic.

This paper considers the case for ‘moralising capitalism’ from a centre–right perspective. After defining capitalism and briefly explaining how it works, it illustrates some of its moral achievements and casts some doubts on the responsibility of the capitalist system for the 2008 financial crisis. It then tries to sketch the contours of a specifically centre–right approach to moralising capitalism, also drawing on the rich insights offered by Wilhelm Röpke, one of the fathers of the Social Market Economy.

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<sup>1</sup> I am grateful for the thorough comments provided by Eoin Drea and Roland Freudenstein.



# Understanding capitalism

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Capitalism is an economic system based on individual freedom and responsibility, private property rights and voluntary exchange. In this sense, the term capitalism is substantially equivalent to the expression 'free market economy'. Early students of capitalism emphasised the reference to capital simply because they believed that capital accumulation was the main feature distinguishing capitalism from previous economic systems, where capital accumulation was low or non-existent and most production went into consumption and not into investment.<sup>2</sup>

Unfortunately, following Karl Marx's influential work on the subject, the term capitalism—'this boundless greed after riches', as the German philosopher wrote in the first volume of *Capital*<sup>3</sup>—assumed a strong negative connotation as the economic system that exclusively favours the interests of capital owners as opposed to those of workers. This serious mischaracterisation of capitalism was dominant throughout the twentieth century and, in many ways, is still with us. It is the root of the almost instinctual reflex that induces many people—even outside the socialist camp—to associate capitalism with the interests of the 1% and with the profits of billionaires and bankers earned off the back of the exploited masses. This paper rejects this characterisation and uses the terms 'capitalism', 'free markets' and 'free market economy' as synonyms.

Free markets imply almost the polar opposite of what their critics believe. When markets are truly free, there is one major force determining what is to be produced, how it is to be produced and what rewards must accrue to those contributing to its production (i.e. the prevailing pattern of income distribution): consumer preferences. Consumers are the true rulers of the capitalist kingdom—not bankers or entrepreneurs. If the latter want to elude the former's rule, they usually must—and invariably do—resort to

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<sup>2</sup> One of the most insightful recent treatments of this subject refutes the old idea that capital accumulation is the essential trigger of a capitalist economy: D. N. McCloskey, *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago: The University of Chicago Press, 2010).

<sup>3</sup> K. Marx, *Capital: A Critique of Political Economy. Volume I: The Process of Capitalist Production* (Chicago: Charles H. Kerr & Company, 1909), 112.



government privilege and protection. Aside from fraud, theft and the granting of special favours by the government, there are no other means to wealth than to produce some good or service that somebody wants to buy—or to inherit it from somebody who has done so. When capitalism

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*Unfettered capitalism is the only authentic form of economic democracy, at least if by that we mean an economic system whose outcomes tend to reflect people's preferences.*

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works well, state police and courts are there to investigate and punish frauds and thefts, while government privileges and monopolies are scorned by the elites and the people alike.

The achievements of the market system are made possible by very sophisticated signals that arise from numberless interactions among market participants and coordinate their decisions: prices and profits.

Prices and profits as determined by the available resources and consumer preferences will induce profit-seeking entrepreneurs to give priority to the products which are most highly valued by consumers, that is, products that entrepreneurs expect will command the highest market price. The same signals will guide entrepreneurs to the employment of those methods of production that minimise costs, thus ensuring that each production line will use the resources that are least valuable elsewhere in the economy. At the same time the pricing process assigns prices to the services of those cooperating in production proportionally to their productivity, thus ensuring the apportioning of rewards in a way that attracts resource owners—including workers, who own their labour—to their most productive uses.

Market competition plays an essential role in bringing about these results. For example, it may well be that some workers are being rewarded less than their productivity would justify, perhaps because the entrepreneurs who are employing them are trying to squeeze salaries and maximise profits. In an economy free of artificial restrictions, market competition will tend to fix the problem, as other entrepreneurs will realise that they can still make a profit while paying workers more and thus workers' salaries start to be forced up. Therefore, competition led by market prices and animated by the entrepreneurial lure for profit acts as an important disciplinary force on the free market and rights many wrongs.

In a completely decentralised way and without any central plan or controller, the market system creates a dynamic process of adjustment



that constantly reshuffles resources to satisfy consumer preferences—the ultimate source of economic value—and ensures that the decisions of millions of people are rendered mutually compatible, without any need for them to know each other. It is precisely this decentralised and unplanned process of adjustment—this spontaneous order emerging from market transactions—which early economists called ‘the invisible hand’. Far from betraying an irrational faith in the powers of the market, this expression is derived from a deep understanding of the way free markets work, an understanding that has been partly lost in contemporary economic discourse but is important to meaningfully discussing the morality of capitalism.

## The moral achievements of capitalism

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From a strictly logical point of view, morality can obviously only be an attribute of individual human behaviour. It is therefore inappropriate to qualify as ‘moral’ or ‘immoral’ the features and outcomes of an impersonal process—the market process—that nobody has planned and that arises from the free actions of millions of individuals with the most varied motives, some very noble, others very despicable. Nonetheless, it is a fact that this fiction dominates political debates and cannot be ignored. Therefore, let us try to see whether there are some positive features and outcomes of capitalism that we can broadly praise as ‘moral’, at least from the point of view of values generally accepted in our societies.

### Economic democracy

It is not too far-fetched to say that unfettered capitalism is the only authentic form of economic democracy, at least if by that we mean an economic system whose outcomes tend to reflect people’s preferences. This peculiar feature—which capitalism does not share with any alternative economic system—should make it instinctively likeable in a democratic age such as ours. In the words of Wilhelm Röpke, one of the fathers of the Social Market Economy, which is still such an important part of the European People’s Party platform:



[T]he process of the market economy is, so to speak, a 'plébiscite de tous les jours,' where every monetary unit spent by the consumers represents a ballot, and where the producers are endeavoring, by their advertising, to give 'election publicity' to an infinite number of parties (i.e., goods). . . . The result is a market democracy, which in its silent precision surpasses the most perfect political democracy.<sup>4</sup>

However, it is also fair to point out that market outcomes can be considered socially beneficial and democratic only *from the point of view of people's subjective preferences*. The latter may well be vulgar or immoral by some aesthetic or ethical standards, but capitalists will still tend to give people what they want in their search for profit. In other words, unfettered capitalism is so pure a system of economic democracy that it possesses no built-in mechanism to discriminate between 'moral' and 'immoral' or 'beautiful' and 'ugly' consumer preferences. For example, some may find extreme pornography violent and offensive, but as long as somebody is ready to pay for it—that is, as long as somebody feels that this product improves his well-being, as he *subjectively* perceives it—the market will tend to supply.

The market does not have an ethical system of its own. In fact, the market does not exist. It is simply an abstract term we use to refer to numberless interlocking individual actions coordinated by prices and competition. If some people are immoral or vulgar or kitsch or whatever, at some point an entrepreneur will probably emerge who, in his lure for profits, will provide them with the immoral, vulgar or kitsch goods they are looking for. In this sense, the market system is never immoral or virtuous in itself, only the consumers it is serving are immoral or virtuous. That is why it is so important for markets to be embedded in a web of social relations underpinned by healthy morals and decent customs—for example, a society in which extreme pornography is considered morally repugnant and where those who resort to it are ostracised. In the succinct formulation of an American economist, 'the market system, far from being a substitute for good judgment and morality, presupposes morality'.<sup>5</sup>

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<sup>4</sup> W. Röpke, *The Social Crisis of Our Time* (Chicago: The University of Chicago Press, 1950), 103.

<sup>5</sup> L. B. Yeager, *Is the Market a Test of Truth and Beauty?* (Auburn: Ludwig von Mises Institute, 2011), 117.



An important distinction must be emphasised here: while the virtues of consumers constitute a necessary moral brake endogenous to market forces and activated by individual freedom, government regulations and prohibitions constitute an exogenous correction of market outcomes that limit individual freedom. Behind each and every one of them there is the implicit assumption that the outcomes determined by consumers' preferences in their free choices are not the correct ones, and that legislators and bureaucrats somehow know better than consumers what is best for them. This paternalistic attitude is the original sin of virtually all government regulations that alter the outcomes of spontaneous economic interactions.

In a free society—in which people should be treated as responsible adults and not as immature children—this is no minor sin. The need to prevent worse woes may justify it in some circumstances. But the frequency and the pervasiveness with which our legislators and bureaucrats commit this sin raise fundamental questions as to their actual respect for people's freedom and individual responsibility. If people cannot be trusted to freely allocate their monetary units in the market, why should they be trusted to freely cast their political votes in the ballot?

## Promotion of positive values

Although the market does not have an ethical system of its own, it rests on certain implicit values and promotes certain general attributes of individual behaviour that most of us would judge positively. Economic historian Deirdre McCloskey has dedicated a trilogy of books to explaining how a revolution in ideas and values—not the mechanical accumulation of capital or the adoption of new institutions—created the modern capitalist economy.<sup>6</sup>

According to McCloskey, the emergence of certain 'bourgeois values', starting in seventeenth-century Holland and eighteenth-century England changed the ecosystem of human interactions. Principles such as equality

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<sup>6</sup> D. N. McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago: The University of Chicago Press, 2006); McCloskey, *Bourgeois Dignity*; D. N. McCloskey, *Bourgeois Equality: How Ideas, not Capital or Institutions, Enriched the World* (Chicago: The University of Chicago Press, 2006). McCloskey is one of the most sophisticated 'apologists' of free markets, but also one of the scholars most concerned with the ethical issues at stake.



before the law, freedom, and recognition of the dignity of commercial and entrepreneurial activities, which had previously been considered low and unworthy, became common currency. All of a sudden, people's lives were no longer doomed to be stationary, and any person with ambition and ideas could try to improve his lot through 'market-tested innovation'.

In this new open and competitive atmosphere in which 'everybody could have a go', an unprecedented wave of innovations was triggered, creating previously unheard of wealth. Therefore, capitalism may well have been the result of the moral transformation of Western society into one which emphasised bourgeois values such as equality, freedom and the dignity of hard work—modern virtues that everyone, and most notably the European centre-right, can embrace.

## Keeping negative feelings in check

The most obvious negative feeling capitalism holds in check is that which it is most often accused of encouraging: greed. All political and economic systems must cope with greed: greed is a human feeling—a consequence of our fallen nature—not a capitalist feeling. In systems that empower some people over others—such as feudal economies, where the lord dominates his subjects, or collectivist economies, where government apparatchiks determine economic outcomes—the greed of those in power is unchecked. In a well-functioning capitalist system, greed is not uprooted but incentives are provided so that the pursuit of self-interest tends to identify with serving consumers. The driving force of the market process is in fact nothing other than the entrepreneurial lure for profits. It is the entrepreneurial alertness to profit opportunities in the free market that ensures that there is a tendency to meet consumer preferences.<sup>7</sup> In other words, it is by pursuing their much vituperated self-interest that market actors will tend to generate socially beneficial outcomes. Once more, the point is well made by Wilhelm Röpke:

[W]e can now understand the true implications of the often criticized and morally condemned idea of profit, in which many people see nothing but a mask for anti-social self-seeking, greed

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<sup>7</sup> Israel M. Kirzner has probably provided the deepest treatment of this subject in his classic work *Competition and Entrepreneurship* (Chicago and London: The University of Chicago Press, 1973).



and unfair practices. But in reality the role of profit in the pure market economy consists in providing a reliable and irreplaceable yardstick for establishing whether an enterprise is going to be a successful part of the national economic structure or not.<sup>8</sup>

This does not alter the morally corrosive nature of greed as a motive. However, from a strictly economic point of view, no system seems better placed than capitalism to constrain greed. While remaining regrettable from a moral point of view, people's bad motives are at least made less disruptive from an economic one. The moral dimension of people's motives is an issue regardless of the economic system in which they live. The morals of a community are complex products of its civilisation, religion, values and societal structures. Blaming economic freedom for the increasing moral apathy of modern societies is just a way to find a useful scapegoat and to blind oneself to the fact that all traditional agencies of moral education in our countries, churches and families among them, have been withering away for decades and are increasingly incapable of performing their role.

## Poverty reduction

We must recognise that capitalism has been extraordinarily successful in reducing poverty. The capitalist world of misery and exploitation so painfully described in Dickens's novels has long disappeared. The long-term trend of capitalism, regardless of decreasing or increasing income inequality in our societies, has undoubtedly been towards a steady improvement of the living standards of the poor. In Britain and in other countries that have experienced modern economic growth, real income per head today exceeds that of around 1700 or 1800 by as much as a factor of sixteen, at least. This implies that the average participant in the British economy goes through at least 16 times as much food, clothing, housing and education in a day than his ancestors did two or three centuries ago.<sup>9</sup> A marvel unprecedented in human history! Not only has the free market economy dramatically improved the lot of ordinary people in the last couple of centuries, but it has also made possible the very life

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<sup>8</sup> Röpke, *The Social Crisis of Our Time*, 105.

<sup>9</sup> McCloskey, *Bourgeois Dignity*, 48.





of millions of human beings that the poverty of previous ages had prevented. Finally, the opening up of global markets in the last three decades has lifted hundreds of millions of other people—many Indians and Chinese—out of dire poverty, and promises to continue doing the same across Africa and Asia. This is no doubt a result of some moral significance, and we should be ready to recognise it.

## Was capitalism responsible for the 2008 financial crisis?

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Somebody could now provocatively ask which consumers were serving the bankers who recklessly risked and lost somebody else's savings, got rich in the process and were then bailed out with taxpayers' money during the recent financial crisis. It is impossible here to thoroughly analyse the manifold causes of the 2008 crash. However, an important point must be kept in mind: our systems are not capitalist economies but mixed economies. In spite of the neo-liberal reforms of the 1980s and 1990s, they are still characterised by very high levels of government spending (over 50% of GDP in many countries), regulation and intervention, which significantly alter outcomes compared to what would probably occur in truly free markets. It is unfortunate that we are accustomed to referring to our mixed economies as capitalist or free market economies: very often this induces us to blame capitalism for the consequences of government improvidence and intervention.

Bankers and financiers were not operating in a free market economy in the run-up to the crisis. In fact, the key principles of a well-functioning capitalist economy—such as the matching of freedom with responsibility for its consequences—were not respected in the banking and financial industries. Banking happens to be one of the most heavily regulated industries in our mixed economy systems, and that was also the case in the decades preceding the financial crisis. Regulations were often such that they distorted market incentives for political motives and created moral hazard and irresponsibility where market freedom and competition



would probably have brought discipline and responsibility. Some of the major causes of the recent financial meltdown can be directly traced back to government policies.

First, most accounts agree that the monetary policy of the US Federal Reserve in the run-up to the crisis was too loose for too long. It was the Federal Reserve's credit expansion that provided the means for unsustainable mortgage financing and enabled the waves of speculation that resulted in the Great Recession. Alan Greenspan's Federal Reserve decided to fight the 2001 recession with aggressive monetary expansion. The federal funds rate in 2001 fell from 6.25% to 1.75%. This was cut even further in 2002 and 2003. As economist Lawrence H. White explains, 'the real Fed funds rate was negative—meaning that nominal rates were lower than the contemporary rate of inflation—for two and a half years. In purchasing power terms, during that period a borrower was not paying but rather gaining in proportion to what he borrowed'.<sup>10</sup> This was a very unusual and dangerous situation. And it was not generated by market developments, but by a policy change that provided the ideal environment for a speculative fever and a demand bubble. The distinguished monetary economist John B. Taylor<sup>11</sup> bluntly wrote that 'monetary excesses were the main cause of that boom and the resulting bust'.<sup>12</sup>

Second, public authorities were even more responsible due to how they distorted the incentives of the financial industry and artificially increased the level of risk bankers were ready to take on. The extension of risky mortgages to under-qualified borrowers was not a spontaneous market development. It was actively encouraged by the US government as part of a political programme to promote home ownership for disadvantaged people beyond what normal market practices would have allowed. There were many aspects to the systematic distortion of market incentives caused by the public authorities in the pursuit of this programme. The most disastrous was probably the implicit bailout guarantee that allowed government-sponsored mortgage buyers Fannie Mae and Freddie Mac to

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<sup>10</sup> L. H. White, *How Did We Get into this Financial Mess?*, Cato Institute Briefing Paper no. 110 (Washington: 18 November 2008). Accessed at <http://object.cato.org/sites/cato.org/files/pubs/pdf/bp110.pdf> on 10 March 2016.

<sup>11</sup> John B. Taylor is the creator of the Taylor rule, one of the most widely accepted rules used to determine the appropriate monetary policy of a central bank.

<sup>12</sup> J. B. Taylor, *Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis* (Stanford: Hoover Institution Press, 2009), 1.



expand their purchases of risky financial products in order to promote the noble cause of ‘affordable housing’, to which the Bush Administration was committed. When reality finally hit home and the two institutions collapsed, the US Treasury came to their rescue, confirming the expectations of investors that crazy risks had been taken for good reasons after all, as losses would be cleaned up with taxpayers’ money.<sup>13</sup> This is an important point and must be duly stressed: at the root of the deviant risk-taking that brought havoc to the US and then the world economy was, among other factors, the efforts of politicians to facilitate home ownership for those on low incomes who would never normally have qualified for a loan. Thus ‘transferring income by distorting the incentives of bankers, the managers of [government-sponsored enterprises], government agencies, and large swaths of the population through implicit housing subsidies contributed to a banking crisis of truly phenomenal proportion’.<sup>14</sup>

Matters are actually even worse. These short-term policies are only the tip of an iceberg of distortions that have been put in place over the decades and have deep-rooted origins in the incestuous relations and collusions between banking and politics. The implicit bailout guarantees of the kind enjoyed by Fannie Mae and Freddie Mac made in exchange for pursuing risky activities that would have pleased their political protectors certainly belong to such distortions. Such protection began in the 1980s and by the 1990s the whole financial system was operating on the assumption that the biggest banks had virtual immunity from losses on the market. Therefore, the basis of the system was not quite the unbridled capitalism depicted by leftist pundits.

Part of the literature about the causes of the crisis has also pointed to the destabilising effects of and the political motives behind the government-sponsored safety nets for banks: ‘[I]ts central conclusions’, summarise economists Calomiris and Haber, two recognised authorities in the field of banking, ‘are that the more generous the safety net, the more unstable the banking system, and that political influences have been central to government decisions to expand safety nets’. After all, ‘in 1980 only 20

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<sup>13</sup> Bank bailouts were of course not limited to ‘neo-liberal’ countries—such as the US and the UK—but widely practised on the European continent too. This is hardly surprising, as these practices represent violations of capitalist principles and not applications of them.

<sup>14</sup> C. W. Calomiris and S. H. Haber, *Fragile By Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton and Oxford: Princeton University Press, 2014), 212.



countries guaranteed deposits; by 2003, 87 countries did so'.<sup>15</sup>

As explained in a recent study of British banking history, another nefarious innovation of the same kind may have been the progressive limitation of shareholders' responsibility for bank losses in the decades preceding the financial crisis: 'The incentive arising from the existence of unlimited liability constrained banks from excessive risk taking because shareholders and, more important, bank directors and managers stood to lose all of their wealth in the event of bank failure'.<sup>16</sup> These changes in legislation and practices have nothing to do with capitalism. In fact, they run counter to the very spirit of capitalism that demands that people are free but fully responsible for the consequences of what they do, thus disciplining their greed.

As modern governments need the banking system to satisfy their insatiable financial appetite and promote their policies of social and economic engineering, they have been all too ready to grant banks a privileged status, shielding them from important aspects of market discipline. This regrettable tendency has brought about a dysfunctional irresponsibility in contemporary banks. Such banks bear little resemblance to true capitalist enterprises operating in a free environment and bearing full responsibility for the consequences of their actions, including losses, which are as much a part of a well-functioning capitalist economy as profits.

In their book—tellingly entitled *Fragile by Design*—economists Calomiris and Haber go as far as to write that 'modern banking is best thought of as a partnership between the government and a group of bankers, a partnership that is shaped by the institutions that govern the distribution of power in the political system'.<sup>17</sup> They caution:

Citizens may be satisfied to blame the deficiencies of their country's banking system on the moral failings of bankers and regulators, or on 'market failures' related to greed and fear, but when they do so, they miss the opportunity to see banks for what

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<sup>15</sup> Ibid., 461–2.

<sup>16</sup> J. D. Turner, *Banking in Crisis: The Rise and Fall of British Banking Stability, 1800 to the Present* (Cambridge: Cambridge University Press, 2014), 8.

<sup>17</sup> Calomiris and Haber, *Fragile By Design*, 13.



they really are, for better or worse: an institutional embodiment—a mirror of sorts—of the political system that is a product of a society's deep history.<sup>18</sup>

## The limits of capitalism: a centre–right approach

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Recognising the moral achievements of capitalism and doubting its responsibility for the financial crisis does not imply that the conservatives, Christian Democrats and liberals of the centre–right have no reason to question some aspects of modern capitalist societies. However, it does imply that they may have taken the wrong approach and focused on the wrong culprits. Too often in recent decades, the difference between leftist and rightist grievances against capitalist societies has appeared to be simply one of the degree of readiness to embark on interventionist, regulatory and redistributive policies. In other words, both the mainstream right and the mainstream left have come to accept the reality of our mixed economies as a matter of course, and they often only disagree about the doses of the mix. The fathers of the Social Market Economy—most notably Röpke, whom I have repeatedly quoted, and its chief political architect Ludwig Erhard—did not mean it to be so.

Röpke and Erhard had thought very carefully about the limits of capitalism and had concluded that such limits are not to be found mainly in its operation as an economic system, but in the need for a moral and social environment that would mitigate the most corrosive aspects of economic competition. This is, of course, not to deny that these authors did identify some economic limits to capitalism. For example they agreed that cartelisation and monopolies could result from unbridled market dynamics and therefore strong anti-trust policies would be required to ensure that competition plays its disciplinary role in the market. They also tended to support a minimal safety net that would shield members of a community from extreme economic deprivation. While these insights are still largely

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<sup>18</sup> Ibid., x.



valued in contemporary policymaking circles—and have perhaps been used to justify much more extreme economic interventions than Röpke or Erhard could have ever condoned—the other and more salient sense in which they wanted our market economies to be ‘social’ has been entirely lost. As Röpke explains:

[I]ndividuals who compete on the market and there pursue their own advantage stand all the more in need of *the social and moral bonds of community*, without which competition degenerates most grievously. . . . The market economy is not everything. It must find its place in a higher order of things which is not ruled by supply and demand, free prices, and competition.<sup>19</sup>

Deirdre McCloskey defines capitalism as ‘private property and free labor without central planning, *regulated by the rule of law and by an ethical consensus*’.<sup>20</sup> The problem with contemporary capitalist societies seems to have little to do with their capitalist nature. Instead, it seems to derive from the pernicious and parallel erosion of both the rule of law and the ethical consensus, which are so indispensable to balanced societies and economies. In societies that are as heavily regulated as ours and where significant portions of the national income are allocated by political authorities, infinite occasions arise for bureaucratic and political discretions that favour some people at the expense of others, with inevitable wounds to the rule of law. At best, the result is pockets of ‘crony capitalism’, within which politically well-connected businesses can prosper regardless of their real ability to satisfy consumers, as part of the banking industry did before the financial crisis. At worst, the result is black holes of crony capitalism that bring a whole economy down. Capitalism usually gets the blame for these developments, but crony capitalism is really a pathological perversion of capitalism, not its physiological form.

As to the erosion of the ethical consensus of our societies, it hardly needs arguing, and seems to be closely related to their de-Christianisation. Whether one welcomes this development or not, one should recognise that in the first centuries of Western capitalism Christianity provided a

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<sup>19</sup> W. Röpke, *A Humane Economy: The Social Framework of the Free Market* (Chicago: Henry Regnery Company, 1960), 91. My italics.

<sup>20</sup> McCloskey, *The Bourgeois Virtues*, 14. My italics.



shared moral narrative that channelled many of capitalism's energies to valuable social purposes. Most importantly, it maintained tight-knit families and communities within which the morality of people's behaviour could be more easily enforced and not so easily drowned in the ocean of market anonymity.

Early capitalist societies made great efforts to practise their newly granted economic freedoms in accordance with the great moral tradition with which they were imbued. The seven Christian virtues—faith, hope, charity, prudence, justice, temperance and courage—were seldom more emphatically present than in the mansions and public buildings of the seventeenth-century Dutch bourgeoisie, and the vice of greed was rarely

more decisively stigmatised. The upper bourgeoisie were to eschew greed and, for example, to give to charities, as they did with abandon. In exchange, the lower orders were not to envy the upper.<sup>21</sup>

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*From a strictly economic point of view, there seems to be no better way of moralising capitalism than by ensuring that it is practised in the most rigorous form.*

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The same Christian charity inspired the great capitalists of nineteenth-century America, who were often haunted by the Christian urge to benefit their communities. Carnegie, for example, gave every penny of his wealth away before he died and financed

endeavours such as Carnegie Hall in New York, the Peace Palace at The Hague, the Carnegie Endowment for International Peace, Carnegie-Mellon University and many others. He is in no way exceptional, as virtually all US hospitals, schools, universities and public libraries have similar origins. When capitalism is moralised by the morals of capitalists, it conveys a galvanising impression of moral health in which 'love thy neighbour'—and not 'cheat thy neighbour'—can still be the dominant moral imperative.

Commenting on this aspect of Röpke's thinking, conservative philosopher Roger Scruton writes:

A small and localised community is able to guide people, through its own vigilance, towards honest dealing, both to prevent the

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<sup>21</sup> McCloskey, *The Bourgeois Virtues*, 291.



exploitation of the weak by the strong and to direct the profits of the wealthy towards the relief of the poor. This happens not because the community is organized economically in some way other than the spontaneous way of the market. It happens because people know each other, share each other's fortunes, and recognize the penalties of defection. They are subject to common moral pressures, often preached at them in church, mosque or synagogue, and wish to see virtue rewarded and vice punished and cast out.<sup>22</sup>

To anybody who is familiar with Christian Democratic and conservative values such as freedom, responsibility, subsidiarity, tradition, strong families and respect for religious precepts, this approach to moralising capitalism should be appealing. If the market needs to be constrained for the common good—and it does—then the constraint should come from below and from within, not from above. It should be a social and moral constraint, rather than a political and bureaucratic constraint. This was the deeper significance of the Social Market Economy as originally conceived: a socially embedded economy, not a socialistically regulated one. Despite this, many leftist remedies for the alleged immorality of capitalism have attracted a significant number of those on the right too. At times, we have fallen prey to the leftist belief that the state should be used to rein in the animal instincts of capitalism through regulations and interventions. After the last financial crisis, it should be clear that this solution is just an illusion: no regulation will keep us safe from immoral and unaccountable people, and overregulating capitalism risks producing results diametrically opposed to the ones we wish for. There is therefore a case for rediscovering the original meaning of the Social Market Economy and rearticulating it to create a more humane form of capitalism in our time.

## For humane capitalism

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The market economy, and with it social and political freedom, can thrive only as a part and under the protection of a bourgeois

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<sup>22</sup> R. Scruton, 'The Journey Home—Wilhelm Röpke & the Humane Economy', *The Imaginative Conservative*, December 2011. Accessed at <http://www.theimaginativeconservative.org/2011/12/journey-home-wilhelm-ropke-humane.html> on 8 March 2016.





system. This implies the existence of a society in which certain fundamentals are respected and colour the whole network of social relationships: individual effort and responsibility, absolute norms and values, . . . responsibility for planning one's own life, proper coherence with the community, family feeling, a sense of tradition, . . . proper tension between individual and community, firm moral discipline, . . . a sense of the natural order of things, and a firm scale of values.

This reads like a beautiful plea for humane capitalism. It is as valid today as it was when Röpke penned it over half a century ago.

However, a great many of the values preached by Röpke were not created—and cannot be revived—by political fiat. On the contrary, they represent the wisdom that has been progressively accumulated over two and a half millennia of Western civilisation, from classical antiquity through Christian Europe to modern times. The fight for humane capitalism obviously goes far beyond politics and policies, and we should be clear that politics and policies can accomplish little in this fight. That notwithstanding, they can accomplish something if they are inspired by clear tenets:

1. Humane capitalism is still capitalism. It is not a mixed economy, which in practice tends to evolve towards some form of crony capitalism. It is not an economy in which half of the national income is reallocated by political intermediaries. It is not an economy in which families and local communities have little control over the provision of such fundamental services as health, education and social security. It is not an economy in which some industries are shielded from market discipline and some market operators enjoy special privileges. To the extent that our economies are far from capitalist economies, they should be reformed through the rigorous application of capitalist principles, for example, the principle that freedom must always match responsibility, which was so painfully disregarded before the crisis. If capitalism is to work effectively as an economic system, the rules of the capitalist game must be strictly enforced, and this is a fundamental task of government and the court system. From a strictly economic point of view, there seems to be no better way of moralising



capitalism than by ensuring that it is practised in the most rigorous form.

2. For the centre-left, moralising capitalism means regulating it, restricting people's economic freedom, confiscating people's wealth and intruding with free enterprise. For the centre-right, moralising capitalism cannot mean doing the same things, albeit to a lesser extent. It must mean embedding capitalism in morally healthy societies. Morally healthy societies seem to require the reopening at the local level—close to people's everyday lives—of the venues for social cooperation and individual responsibility that were systematically closed by interventionist economic and social policies in the post-Second World War decades. British author and Conservative member of the House of Lords Matt Ridley wrote that '... where authority replaces reciprocity, the sense of community fades. In Britain, the welfare state and the mixed-economy "corpocracy" replaced thousands of effective community institutions—friendly societies, mutuals, hospital trusts and more, all based on reciprocity and gradually nurtured virtuous circles of trust'. A similar process took place all over the Western world and most notably in continental Europe, where the drive towards centralisation reached peaks previously undreamt of. Our sense of moral responsibility can only spring from below, if and when—in accordance with the principle of subsidiarity—people are given large amounts of freedom to shape their lives through action in local communities. That is why, if we are to rekindle some sense of individual virtue in our societies, it is vital that we reduce the power and scope of the state by devolving responsibility over people's lives to parishes, clubs, self-help groups, small businesses—everything small and local. We should also come to understand the virtue of regulatory restraint at the national and European level, in order to allow local, cooperative solutions to emerge. We should not underestimate the way regulation—not least European regulation—has contributed, in recent decades, to crowding out small local businesses to the profit of big multinational chains that do not have any bonds with local communities.
3. We Europeans should learn to appreciate—regardless of one's



individual faith, or legitimate lack of it—the positive function that spontaneous agencies for the spread of certain moral values—notably, but not exclusively, religious communities and churches—can play in a free economy. In modern societies, there cannot be and there should not be any single agency monopolising the provision of moral values in the way that Christian churches did for such a long span of Western history. However, the existence of any community rests on some implicit values and customs that define the boundaries of what is and what is not morally allowed and provide a moral imperative to act beyond one's self-interest. It is difficult to deny that these values are most effectively maintained as part of a system of beliefs and rituals that tend to take a religious form—even when this form is not of the theistic kind. That is why a free society should not be afraid of vibrant religious communities and should not try to artificially restrict their influence on society, politics and education. For complex historical reasons, this has not always been the attitude of European states. In many instances, a militant secularism actively used the powers of the state not only to strip churches and religious communities of their privileges—which was necessary and is still an unfinished task in some countries—but also to try to neutralise the public and educational role of religion, as if religion can really be reduced to a purely private matter and contributes nothing to the public sphere. Our American friends have maintained a much greater openness to the public role of religion, while enforcing the strictest separation between churches and state since the late eighteenth century. As a result, many competing churches have prospered and survived to this day, playing a public and educational role that only militant ideologues would deny. A free society—as any society—needs moral narratives that force us to think beyond our narrow self-interest. When these narratives encouraging spontaneous moral actions in communities decline—as is the case today in many European countries—people tend to withdraw into their purely private sphere and there is a strong temptation for the state to fill the resulting void.

4. Western civilisation is luckily heir to some of the richest moral traditions in world history. From pagan antiquity to medieval Christianity, from the Renaissance to the Enlightenment and beyond,



moral reflections form an important part of Western heritage. Different traditions of thought offered various perspectives on the same set of moral problems and their study was an essential part of the old curriculum in the humanities and the liberal arts, which provided the basic education of all European elites, regardless of their country of origin, until well into the twentieth century. It is regrettable that modern scientific and technical subjects have not been added to this curriculum, but have entirely replaced it, cutting the bonds of entire generations with the insights into human nature and morality that their forefathers had developed over the course of thousands of years. Reviving this curriculum could contribute to reintroducing the basic intellectual instruments for moral analysis in our societies. The humanities have been thrown away under the spell of a specious doctrine that holds them as unnecessary in our scientific and technological societies. Practical, useful skills are all that we should be taught in this new world. And yet, while we are taught only 'useful' practicalities, modern economies, modern science and modern technologies have multiplied the moral dilemmas to which we are exposed. Can we really afford to neglect the rich intellectual toolkit that Western civilisation developed to understand and adjudicate these dilemmas?

## Conclusion

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It is amusing that the same progressives who successfully attacked the centrality of the humanities in Western education, denounced religious values as barbarian relics, deconstructed families as oppressive institutions, and dissipated the capital of morals and trust stored up in local communities now complain about the immorality of our capitalist societies. They do not see the sad irony of their positions and go on arguing for ever more regulation and restriction of our economic freedoms. It is high time for Christian Democrats, conservatives and liberals of the centre-right to unmask once and for all this comedy of errors and set out to reconstruct our broken societies and economies on a sounder basis. Only capitalism embedded in a rich ecosystem of community values and personal relations can be truly humane. The Christian Democratic notion of



subsidiarity and the insistence of the Christian and conservative traditions on moral discipline and social duty can play an important role in increasing the 'embeddedness' of capitalism, thus giving our economies a more human face and a stronger moral dimension.