Undoing Myth #2: Free Enterprise and Capitalism are NOT Synonymous

Excerpt from HOME, We Can Choose Humanity's Future by Ruth L. Miller

Corporate capitalism can be defined as an economy of accumulation. It works like this:

1. An individual accumulates capital to form a company;
2. a company accumulates capital to build facilities;
3. facilities are expanded to build market share and achieve "economies of scale;"
4. as markets are saturated, the company expands into new market areas;
5. the owners of the company accumulate more capital to create (or take over) more companies.

The success of this form of capitalism rests on two main points:

1. an ever-expanding market and
2. a ready availability of cash for investment to expand or take over another firm.

Cash and market – 2 things that Marx really didn't address.

Keynes' Model

While Marx's model effectively addressed the relationship between the number of workers and the size of the market. John Maynard Keynes addressed the cash.

Until the Great Depression of the 1930s, virtually all economic theory held that business automatically cycled through periods of "boom" and "bust." Keynes, in his landmark *Treatise on Money*, had explained the process as a balancing act between the availability of a community's savings to be invested and a businessman's readiness to invest. He suggested that when there is more money to be invested than there are safe investments, business growth begins to slow until rates of interest go down, making those same investments now "safe" and speeding up business growth. Alternatively, when there is more demand for investment cash than savings available to invest, interest rates go up and business growth begins to slow. This is what the Federal Reserve System in the U.S. has been building its policies and activities on.

When investments slow down, Keynes said, the demand and supply equal out, interest rates come down again, and the cycle repeats itself

During the Great Depression of the 1930s, however, even after sorting out the legal fictions and un-collateralized loans that had overwhelmed the stock market, there was still the puzzling fact that the expected "seesaw" of "boom and bust" had not righted itself. Business had not begun to boom again.

The big question among economists and politicians alike was "Why?"

The answer lay in a surprising place. Keynes himself had to toss out his beautiful explanation of the savings-investment cycle when he applied his theory to that Depression. His insight? That when work begins to get scarce (on the downhill side of the cycle), workers and capitalists alike use their savings to live on, so there's nothing left to build with when the bottom is actually reached.

Effectively, then, when a corporate-capitalist economy "bottoms out" there is no built-in mechanism to turn it around. (The opposite is also true – assuming no physical limits – there is no built-in mechanism to turn a "booming" economy downward.) Only action from "outside" the economic process can turn it around: action that imitates the effect of infusing savings into a depressed economy or increasing the price of savings in a booming economy.

Hence Keynes' penchant for government "support" of corporations. And, given his influence on American businessmen and politicians of the time, hence the establishment and key role of a publicly supported private bank called The Federal Reserve in the post-Depression U. S. economy.

New Understandings about Capital

What we learned from the 1930s Depression, then, is that corporate capitalism only lasts when underpinned by a government that has the power to control the availability of money.

More, since it requires an ever-expanding market, an economy based on corporate capitalism – the continued investment in and expansion of legal entities called corporations – assumes unlimited resources and unlimited population growth. So, in addition to a government that manages the money supply, corporate capitalism requires a government that is willing to continue to expand its borders, or at least its economic sphere of influence, making an empire-building culture essential to its existence.

Let’s compare this system to a free enterprise, community-capitalist system

Adam Smith's Model

The patron saint of Free Enterprise is the 18th-century British philosopher and lecturer, Adam Smith. In the mid-1700s, Smith was known throughout Europe for his insights and abilities to perceive patterns of order where others saw only brutality and degradation. In 1776 (a year of some note!), he published *The Wealth of Nations*, a compilation of the ideas of hundreds of writers from all over the world with the data describing dozens of enterprises in England, Europe, and the colonies. It was a monumental and revolutionary work.

In this treatise, Smith addressed two main questions:

- How does individual action align with the whole?
- How do the essential functions of a society get accomplished?

He does so in the context of the market place, stating that the stability of the whole is possible because each individual works in his own self-interest. This individual self-interest is moderated by competition with other self-interested individuals who will take away the trade of anyone who charges too high a price, or take the workers from anyone who pays too low a wage.

He goes on to state that this combination of self-interest and competition not only regulates the price of a commodity but also the quantity. An increased demand for a product will make it more valuable, increasing the profit potential for it, and encouraging more people to produce it. This tendency, incidentally, limits prices and profits as well, as new producers may be able to charge less than existing ones.

Smith's model of a "self-regulating" market system depends on a multitude of small enterprises in which no one party – workers' union, monopolistic cartel, or government regulator – has the power to shift the balance. This is "free enterprise" in its pure form. And, in Adam Smith's time, there was no reason to expect anything other than more of the same, with continuing improvement in everyone's situation, as increased population led to increased markets led to increased opportunities and new products. But the system did not *depend* on such growth to supply everybody's needs. As long as the market was left alone, people could prosper.

Notice that the ultimate determiner and beneficiary of Smith's system is not the capitalist or the worker, but the consumer. In a free enterprise system, it is the consumer who decides what to buy and what a good price is. It is the consumer who benefits from the increasing array of products that result from the labors of the worker and the investments of the capitalist. And, since, ultimately, everybody is a consumer, then everybody benefits. As long as no one group messes with the system.

Differences between Free Enterprise and Corporate Capitalism

This means that while corporate capitalism is depending on government support for its continued existence, Smith's free-enterprise community capitalism can only continue without any interference, supportive or otherwise. And while corporate capitalism assumes continued expansion, free enterprise assumes a balance resulting from the relationship between consumer, worker, owner, and available resources.

The limitations of Smith's model have to do with scale. In his time, the world's resources and markets seemed nearly boundless, the possibility of workers forming a powerful voice was miniscule, and the linking of business owners with government seemed farfetched, at best. He lived in a world of villages and market towns, of limited transportation and minimal long-distance communication, and of trade relations built on familiarity, family, and mutual inter-dependence. (We're not likely to give a bad deal to a relative, our doctor, or a potential in-law, right?) So Adam Smith's model, like everyone else's was defined by his mental framework.