

Capitalism and Morality

Capitalism Demystified: A Dynamic Mosaic Approach

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Introduction

Understanding, defining, or teaching Capitalism is a challenging proposition. Economists, political scientists, philosophers, sociologists, religious leaders, and many other interested individuals have explained Capitalism using and emphasizing their own jargon and principles.

This has led to a narrow and often incomplete explanation of Capitalism.

It is ironic that a society, which has harvested a bumper crop of Capitalism's fruit, has a limited understanding of the major determinants of this dynamic social system.

Seemingly, this is not due to a lack of interest, but rather the complexity of the system and lack of a proper teaching tool.

Capitalism is found at the crossroads of many disciplines and in the melting pot of dynamic interactions among those disciplines.

The objective of this paper is to introduce the dynamic mosaic of social systems as a new descriptive tool and to apply and, hence, to illustrate the basics of Capitalism.

Types of Controls

Each social system (i.e., Capitalism, Communism, and other isms) can be identified by assessing the degree of interactive dominance among four "control" determinants:

- Moral-Cultural
- Private
- State
- Economic.

The explanation of the above controls are as follows:

Moral Cultural Control

One of the prime motives in voluntary and non-instinctive gatherings of all living matters is the Private Benefit Maximization motive of the members.

Human gatherings are no exception; freedom empowers Private Benefit Maximization motives, bolsters interactions among members, and thus shapes the “Moral-Cultural” fiber within each society.

Society’s leaders, those with physical or mental advantages, with persuasive or coercive power, weave the Moral-Cultural canvas of each society. For instance, witch doctors, dictators, religious leaders, or elected politicians can directly set codes of conduct within their societies.

The broad spectrum of their influence may include the role and rights of each individual within a family unit, various degrees of individual freedoms and property rights within the society, business transaction norms and work ethics, and the allocation of resources, including human capital.

As new generations replace the old ones, codes of conduct gradually become embedded in the moral-cultural fiber of various societies, thereby creating a control mechanism, namely, “Moral-Cultural Control.”

The roots of any system of cultural-political economy (i.e., various isms) are a society’s moral-cultural values. The moral-cultural sphere provides values, which impart order, coherence, and moral direction and control to society.

The family and a vast array of religious, educational, social, political, and cultural, as well as other voluntary groups, confirm, reflect, and communicate these values.

The U.S. system of democratic capitalism is built on a foundation of moral-cultural values such as respect for freedom, hard work, thrift, duty, individualism, private property, equality of opportunity, fair competition, self-reliance, perseverance and skepticism of concentrated power.

State and Private Controls

Unlimited freedom often leads to chaos; thus, authoritative institutions were established within societies—some through coercive power of elite dictators, others through a democratic process.

These authoritative institutions exerted their influence through what can be labeled “State Control.”

The existence of State Control implies some restriction on individual controls or what can be labeled “Private Control.”

Economic Control

Voluntary exchange promotes mutual benefits. The fulfillment of the Private Benefit Maximization motive through exchange necessitates the existence of an exchange mechanism. Furthermore, each society’s limited resources and unlimited wants (the scarcity problem) create yet another control mechanism, namely, “Economic Control.”

The Dynamic Mosaic of Capitalism

The study of Capitalism can be divided into two branches, Macrocaptialism and Microcaptialism. Macrocaptialism is the study of Capitalism as a whole—its four determinants (controls) as well as the aggregate interactions which make up Capitalism. ON the other hand, Microcaptialism is a detailed study of any specific interaction among the four determinants which make up Macrocaptialism.

For instance, Democracy (the dominance of Private Control over State Control) or Dictatorship (the dominance of State Control over Private Control) are Macrocaptialism concepts; whereas a detailed examination of the United States system of democrataic captialism and its underlying processes, such as constitutionalism or frequent periodic elections, involve the analysis of Microcaptialism concepts.

In every society, primitive or advanced, an inseparable relationship exists among the four basic control determinants: Moral-Cultural Control, Private Control, State Control, and Economic Control. What differentiates one system of cultural-political economy from another is the degree of interactive dominance among these determinants.

In Figure 1, each of the four “Controls” is depicted as an area. Moral-Cultural control is the primary foundation of all forms of social systems.

Moreover, Capitalisms is mainly associated with the dominance of Private Control over State Control (and Economic Control), whereas Communism is vice versa.

For instance, in American society, Moral-Cultural Control (evolving for more than two hundred years) is continuously influencing, and is being influenced by, the type of political structure (State Control), the boundaries of individual freedom (Private Control) and the exchange arena or the markets (Economic Control).

These two sets of overlapping circles illustrate the inseparable, interpenetrating, interdependent, and, most importantly, the dominating nature of the above determinants as they fundamentally set apart Capitalism from Communism.

The tug-of-war between State Control and Private Control, their simultaneous interactions with Economic Control as well as Moral-Cultural Control, makes up various forms of cultural-political economic systems or so-called “isms.” Seemingly, Capitalism, Socialism, Communism, and Fascism have gradually become more emotionally-charged rather than descriptive terms.

Throughout history, revolutions were born and civilizations evolved whenever and wherever existing State Control was vulnerable.

This process often led to either the birth of another form of State Control (a move toward dictatorship) or a gradual reversal of dominance in favor of Private Control (a move toward democracy) and hence an expanded possibility for the exercise of Private Benefit Maximization motives, or simply freedom.

Figure 1. The Dynamic Mosaic of Isms

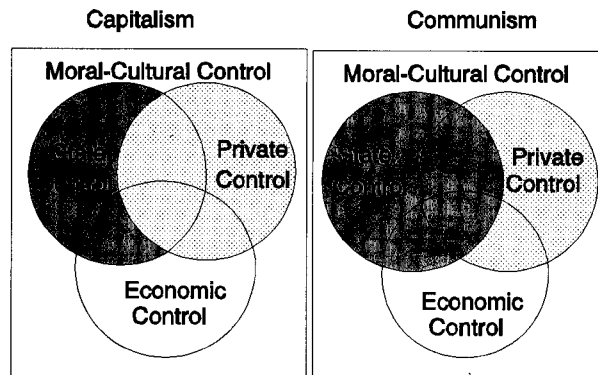


Figure 2 illustrates a closer look at the dynamic mosaic of Macroculturalism.

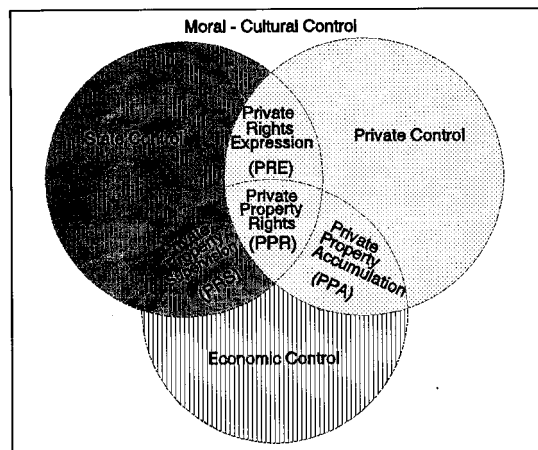
In Figure 2, any point within the rectangle belongs to and represents determinants which encompass that point.

The intersection areas (the mosaics) signify two or more determinants simultaneously.

The ever-changing strength of the determinants over time results in the “dynamic” nature of the four types of control and consequently their intersections.

Descriptions of these primary intersections follow.

Figure 2. The Dynamic Mosaic of Macroculturalism



Private Property Rights (PPR)

PPR represents the intersection of all four determinants or types of control: Moral-Cultural, Private, State, and Economic.

This keystone mosaic (PPR) illustrates the importance of Private Control (Private), Economic Control (Property), and State Control (Rights) in any form of Capitalism.

Ultimately, the owner of “unfragmented” property rights makes the majority of economic decisions. In Capitalism, the individuals utilize their PPR, make economic decisions, and hence allocate resources.

Microcapitalism studies that focus on this intersection primarily deal with the legal system and a wide spectrum of private rights.

Private Property Accumulation (PPA)

In most economic textbooks, Capitalism is narrowly explained by referring to this intersection. PPA represents the intersection of Moral-Cultural Control, Private Control, and Economic Control.

Empowered by the Private Benefit Maximization motive and freedom, this mosaic represents the wealth accumulation process in Capitalism. Specifically, PPA embodies the ideas of free economy (free enterprise system or free market system), individualism, competition, product and resource markets (the circular flow), and the price mechanism and its role in the allocation of scarce resources.

Here, the Private Benefit Maximization motive is at work simultaneously stimulating consumers to maximize their wealth and utility, and producers to maximize their wealth and profit.

When State Control protects and preserves but does not share property rights with individuals (unfragmented property rights), individuals are able fully to retain (PPA) and enjoy the fruit of their labor. Private Property Rights (PPR) is a fundamental prerequisite for this “wealth accumulation” process.

Microcapitalism, economics, marketing, management, accounting, and finance all examine this intersection.

Private Rights Expression (PRE)

PRE represents the intersection of Moral-Cultural Control, Private Control, and State Control.

Liberty may be generally defined as freedom of thought and association, of political expression, of cultural expression, of religious expression, of career choice, and of personal choice of one’s lifestyle.

Freedom is a self-determining power in a human being. It is a quality of human spirit.

Humans, by virtue of being human, possess the capacity for exercising and enjoying freedom.

The PRE intersection primarily focuses on the freedom of political expression, which in turn secures other freedoms and eventually liberty itself.

In democratic societies (Capitalism and Socialism), the dominance of Private Control over State Control in the PRE intersection illustrates “democracy.”

In contrast, in totalitarian societies (Communism and Fascism), where State Control dominates Private Control, this intersection represents the lack of democracy or “dictatorship.”

This intersection is the focus of study in the field of Political Science.

Property Rights Supervision (PRS)

The government's role in the economy includes supervising the monetary system, establishing various market-regulating agencies (protecting consumers and overseeing producers), promoting competition, enacting public utility regulations, facilitating monetary policy, and conducting fiscal policy.

PRS represents the intersection of Moral-Cultural Control, State Control and Economic Control. Economics is the primary field for examining this intersection which primarily deals with "regulation."

The four determinants (controls) as well as their intersections (PPR, PPA, PRE, PRS) can all be subdivided further to include many other sectors and institutions.

For instance, the "International" sector can be identified within the Economic Control determinant, which includes topics such as tariffs, export and import of products and resources, currency exchange markets, and multinational corporations.

The "Supported" sector can be identified within the Private Control determinant.

Certain groups within every society, for one reason or another and at one time or another, are not actively participating in the resource market and consequently are unable to accumulate wealth, to participate in the product market, and to satisfy their Private Benefit Maximization motives.

These groups include the majority of the disabled, the institutionalized, the elderly, discouraged workers, and those who are either not in the labor force or their participation in the labor force yield inadequate compensations. Subject to its limited resources, Moral-Cultural Control in all forms of social systems attempts to protect the basic human dignity of these groups either directly (volunteerism and charity) or indirectly (welfare programs).

The "Mediating Institutions" sector can be identified as a subdivision of Private Control.

Various mediating institutions such as family, church, social and political groups and unions facilitate the monetary and non-monetary exchange of benefits for their voluntary constituents.

Dynamic Mosaic and Other "Isms"

The dynamic mosaic tool can be applied to other "isms" analogous to Capitalism and Communism.

Unlike Capitalism or Communism where unfragmented property rights is almost exclusively controlled by the individuals (Capitalism) or the state (Communism), in Fascism and Socialism, due to a shared control (the State-Private Control or the Private-State Control) of property rights, the keystone mosaic of Private Property Rights (PPR) is fragmented. In Communism (Figure 1), State Control dominates Private Control and government makes all economic decisions.

Thus, the regulatory role of the government in the economy, or Property Rights Supervision (PRS), is replaced by an absolute control or maximum intervention by the state.

Private Rights Expression (PRE) is extremely limited and suppressed by State Control. Private Property Accumulation (PPA) is extremely limited since Private Property Rights (PPR) is owned and controlled by the state.

In Fascism (Figure 3), State Control mostly dominates Private Control. However, economic decisions are made by individuals in support of, and compliance with, the ideals of dictators.

Private Property Rights (PPR) are protected as long as production decisions are consistent with the needs of the state.

This constrained freedom and shared (State-Private) economic decision-making results in a “fragmented Private Property Rights (PPR).”

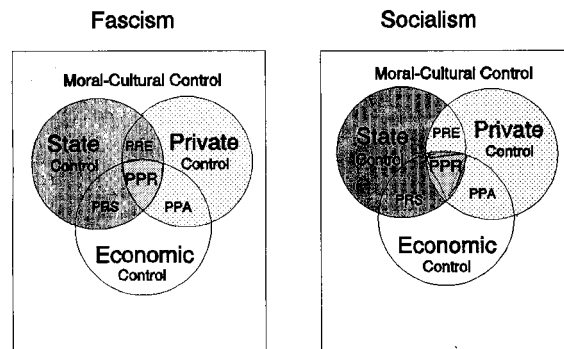
Private Property Accumulation (PPA) is permitted as long as it is used to promote the objectives of the ruling elite. However, Private Rights Expression (PRE) is completely replaced by State Control and dictatorship. The regulatory role of the government in the economy or Property Rights Supervision (PRS) is prominent and similar to that of Communism.

In Socialism (Figure 3), Private Control mostly dominates State Control. Thus, similar to Capitalism, Private Rights Expression (PRE) results in a democratic system of government. However, Private Property Rights are limited to the “Privatized” industries. This “constrained” freedom and shared (private-State) economic decision-making result in a “fragmented” Private Property Rights (PPR) in Socialism.

Private Property Accumulation (PPA) is permitted for all privatized industries. The government controls major industries, and its Property Rights Supervision (PRS) is greater than that of Capitalism.

In addition to the previously mentioned subdivisions, other sectors can be identified and discussed within the dynamic mosaic framework. The discussion of these subdivisions as well as an in-depth application of this tool to other “isms” is beyond the scope of this paper.

Figure 3. The Dynamic Mosaic of Isms



Conclusion

The purpose of this paper has been (1) to introduce the dynamic mosaic of social systems as a descriptive teaching tool that can be applied to any type of cultural-political economic system (i.e., Feudalism, Monarchism, Socialism, Communism, Fascism, Capitalism, Corporatism, etc.), and (2) to apply this tool to Capitalism.

Capitalism is on the lips of many. However, very few understand its underlying elements.

There is a need to study these elements carefully so that we can cautiously anticipate, intellectually assess, and confidently face future changes. This paper represents a step toward this understanding.

As the dynamic mosaic illustrates, Private Property Rights, the keystone of capitalism and the indispensable linkage between political freedom, economic freedom, and state protection of individual rights, is the preeminent institution within the moral-cultural framework of capitalism.