A Critique of Capitalism, from an Austrian Perspective

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Abstract: Capitalism is a term widely used by critics and advocates alike, but with little coherence to its meaning. Austrian economists Ludwig von Mises and F. A. Hayek, along with Chicago School economist Milton Friedman sought to turn it into a term of approval rather than criticism. Their different efforts to do so did not harmonize theoretically. When their respective ins ights and confusions are addressed a coherent theory of capitalism emerges, one that is critical, as was initially the case.

Keywords: Austrian School, capitalism, civil society, corporations, freedom, Hayek, markets, Mises, power, private property, property, Proudhon

Political debate and discussions of public policy in the United States have been more pointless and contentious than they otherwise might be due to the conflicting and mutually incoherent roles the words "capitalism" and "socialism" play in them.

Within the lifetimes of many readers "socialism" usually referred to economies where government direction sought to replace the workings of the price system. The Soviet Union and China were examples of such socialism. At the same time, countries with either significant elements of government ownership of enterprises operating within a market order, such as public utilities, or providing public services separate from such an order, such as Social Security, were also called socialist. As a general term, "socialism" had no coherent meaning, and still does not. But it was always contrasted to the term "capitalism."

Little light was shed by this contrast. "Capitalism" is equally vague in its meaning. Today, nearly everyone agrees the United States has a "capitalist economy," but without agreement as to what "capitalism" really means. Once we look beyond the word to its meaning for the people who use it, agreement vanishes before our eyes. Most Americans and nearly all classical liberals and libertarians now equate capitalism with a "free market" and "competitive enterprise." Critics of the American economy usually use "capitalism" to mean something quite different from this. However, as to what that difference is, among critics there is no agreement.

I agree the term "capitalism" best describes the American economic system. No other word works quite as well, and a careful examination of the term pinpoints what is unique about capitalist economic systems. I will argue capitalism describes a particular institutional form that can exist within a largely market economy but is not in any sense reducible to it. Other institutional forms can and do exist in market contexts, and in advanced forms, capitalism can subjugate market processes to organizational criteria.

PROUDHON AND CAPITALISM

'Capitalism' began as a term of criticism. Its first significant use was by the French anarchist Pierre Joseph Proudhon, who argued:

> The economic idea of capitalism, the politics of government or of authority, and the theological idea of the Church are three identical ideas, linked in various ways. To attack one of them is equivalent to attacking all of them… What capital does to labour, and the State to liberty, the Church does to the spirit. This trinity of absolutism is as baneful in practice as it is in philosophy. The most effective means for oppressing the people would be simultaneously to enslave its body, its will and its reason (1851, p. 271; Nettlau 1997, pp. 43-44).

Absent from Proudhon's indictment is any reference to the market. In fact he thought his mutualist alternative was compatible with a market economy. Proudhon was concerned with hierarchical relations of power in all the forms it took, and the exploitation of the weak that usually accom-

panied it. As Proudhon used the term, capitalism's primary focus is not the market, but unequal power within large enterprises. In addition, far from being a 'free market,' the capitalism he described included a thick layer of political privileges for the powerful, some rooted in the past and some serving the business elite of the time.

So far as I can tell, for decades afterwards the term "capitalism" was associated with big business, but beyond that, analyses varied. Karl Marx had not used the term and was critical of Proudhon, but the Marxists that followed readily adapted it to a Marxist framework. From this perspective capitalism was based on private property in the means of production within a market. As Marxism's influence grew, Proudhon's original focus on hierarchies of domination was increasingly lost from sight. For many of capitalism's critics, issues of workers' freedom and justice were subordinated to theories of class conflict, capitalist accumulation, the inexorable operation of impersonal scientific laws, and visions of deliberate economic planning.

Defenders of the economic status quo, critics of government involvement with business, or advocates of a market economy, preferred using terms such as the 'free market', 'competitive enterprise', 'free enterprise', 'private enterprise', and more philosophical terms like 'liberalism', and 'classical liberalism.' 'Capitalism' was conspicuous in its absence.

In time, "scientific socialism" came to dominate critics' alternatives to capitalism. Instead of the domination of working people by hierarchies of organizational power, exploitation was described as the extraction of "surplus value" by the logic of the market process itself. This exploitation was separate form any 'subjective' sense of exploitation by working people, thereby making the term 'scientific.'

When 'scientific socialism' came to power in Russia and elsewhere, new forms of hierarchy and new forms of violent oppression were created, all in the name of ending 'capitalism.' This became 'socialism' for many.

Consequently, emphasis on the importance of 'freedom' shifted from capitalism's critics to the market's defenders, and in the process redefined from freedom from organizational hierarchy, as Proudhon might have put it, to freedom within what Hayek in time termed a spontaneous order. Putting the same point in different terms, the focus on freedom shifted from emphasizing the concrete context which stifled it to emphasizing voluntary exchange while minimizing the importance of context. By definition freedom existed in a 'free market,' and increasingly became equated with choice. The freedom that mattered most was consumer choice since everyone was a consumer. The circumstances of working people became irrelevant, at least so long as they chose their employment, because they could always choose to work somewhere else. They voluntarily worked where they did. The market subordinated everyone, workers and businessmen alike to serving consumers and rewarded them according to their service.

Three influential books published by Ludwig von Mises, F. A. Hayek, and Milton Friedman played a powerful role in transforming 'capitalism' from a negative term about big business and hierarchies of power to a positive description of a free society. However, these men employed subtly different definitions, and later advocates of 'capitalism' failed to grasp these differences. Today, capitalism's defenders freely use the word as analogous to free enterprise or free markets, but at the cost of at least as much conceptual confusion as plagued capitalism's critics.

LUDWIG VON MISES' OPENING MOVE

In 1922, Ludwig von Mises published *Socialism*, a powerful critique of socialist arguments for replacing the market with central planning. In it, Mises also argued market advocates should appropriate the word "capitalism" for their own purposes. The term was vague, Mises wrote, for "users [of the term] agree only in that they indicate the characteristics of the modern economic system. But wherein these characteristics consist is always a matter of dispute" (1951, II.5. 34). Consequently, Mises argued, since "capitalism" was increasingly used in the social sciences and political debate, it was worth liberating from the theoretical incoherence accompanying its use by the left.

In *Socialism* Mises suggested "If the term capitalism is used to designate an economic system in which production is governed by capital calculations, it acquires a special significance for defining economic activity…" (1981[1922], II.5. 36.) Both Proudhon's emphasis on power relations between employees and employers and Marx's focus on the market in general were sidetracked. Proudhon was not interested in the calculation problem and Marxists largely denied it existed, at least until later Marxists sought to confront his and Hayek's critique of central planning. (At which time the Polish Marxist Oskar Lange wrote a statue to Mises needed to be put in the ministry of planning for drawing their attention to a serious challenge.) (Lange, 1937).

Mises used the term "capitalism" to focus on one variable dimension of the market process, flowing naturally from his insight that market prices provided a common denomi-

nator reflecting the relative availability of different resources with respect to one another. This common denominator made it possible for otherwise unconnected people to freely employ resources based on their own limited knowledge, while still leaving as much as possible to meet other people's demands. The word 'capitalism,' Mises emphasized, identified the purest example of this process at work.

Mises' definition of capitalism identified one important characteristic, but then obscured its full significance. While market prices are essential signals enabling businesses to be managed sustainably, not all businesses seek to reduce all the values their owners seek to a single monetary denominator. This distinction was hidden by Mises' use of the broad term "governed." We can bring the issue to the surface if we look carefully at the details of Mises' description of capitalism. (I have shortened the following quote because it is a long one, but in no way have I distorted it.) (Mises 1981[1922], II.5.35-7)

> [capital calculation is] used only for purposes of economic calculation. It serves to bring the original properties of a concern under one [my italics] denomination, whether they consisted of money or were only expressed in money. The object of its computations is to enable us to ascertain how much the [monetary] value of this property has altered in the course of business operations. The concept of capital is derived from economic calculation… Calculation in terms of money is [essential to] the concept of capital…
>
> II. 5. If the term capitalism is used to designate an economic system in which production is governed by capital calculations… it is by no means misleading to speak of Capitalism and capitalistic methods of production… [when] Capitalism is used correctly, the association it is intended to convey [is] the development and spread of large scale undertakings… only capital calculation made the growth of giant enterprise and undertakings possible.

Like its critics on the left, Mises identified capitalism with giant enterprises operating on large, even global, scales. It was not a synonym for the market process. A craft faire is an example of the market process, but it is not an example of capitalism. Neither is an individual proprietorship.

For years I ran a small business I had founded to support my Ph.D. research. While it was consistently profitable, I never sought to make as much money as I could. There were many times when I subordinated maximizing financial income to other values. Writing my dissertation took priority. Within my business I used recycled paper at a time when I could have used cheaper alternatives that I believed would make little difference in sales. I donated products to charitable causes without concern as to whether doing so was good for business. I gave special prices to some buyers when I did not have to. In other words, my business was an expression of many of my values, one of which was as a way to make a living.

Mises was not describing my kind of enterprise. He was describing businesses where decisions were made after all important questions had been evaluated "governed by capital calculations", in order (to meld the quotations above) to "bring the original properties of a concern under one denomination." The purest form of such a business is the publicly held joint stock corporation.

This distinction between all market enterprises and those most characteristic of capitalism is important.

Years earlier I had read Mises' argument that prices are signals, rather than genuine measures of value, because value is never constant in the market. It is subjective and contextual. Prices indicate how many other resources I must give up to acquire something at the moment. On balance, these signals serve to enable everyone to acquire what they desire while expending the minimum resources that could then be used to acquire other less desired things. As a small businessman, I treated prices this way. They were one (essential) factor among many that determined how I ran my enterprise. This is often true even for those running very large businesses, so long as they are truly its owners. For example, Deborah Cadbury's history of the chocolate industry emphasized the ethical complexity motivating many of its key entrepreneurs, until businesses were acquired by traditional corporations (Cadbury 2010). See also David Harris' study of how the once family-owned Pacific Lumber company operated before and after corporate acquisition (Harris 1995).

F. A. HAYEK'S DIFFERENT DEFENSE OF CAPITALISM

A little over two decades after Mises published Socialism, F. A. Hayek wrote *The Road to Serfdom*. There he observed "If 'capitalism' means here a competitive system based on free disposal of private property, it is far more important to realize only within this system is democracy possible" (1944,

pp. 69-70). I agree. But Hayek's definition is not Mises' definition, and equating the two blurs some important issues.

Freely exchangeable private property rights are the foundation of a free society, and so Hayek's definition included my small business. I will argue Mises' did not. Mises' definition includes the large corporate enterprises that dominate the world economy and, I will argue here, Hayek's does not. Capitalism in Hayek's sense is based on private property in business and, I will contend, in Mises' sense, capitalism eliminates it. Yet both depend on functioning rules of contract and market prices. Both are rooted in markets.

PRIVATE OWNERSHIP, OR NOT?

Private ownership fuses control with responsibility: I control what I own, and I am responsible for it. The power ownership makes possible for me is accompanied by my responsibility for its use. Together power and responsibility, through owning property, provide the material basis for freedom within society. How I use my property reflects my individual values.

In large corporations such as Mises described, private property in this sense has dissolved. 'Owners' of corporate shares are not personally responsible for its actions. A share 'owner's' liability is limited to the value of the share. In terms of private property, it is as if the maximum liability I have for anything I own is its replacement value. Beyond this limit, the degree of injury I might cause another is irrelevant.

The privilege of limited liability undermines responsibility. However, it is not the only way in which the traditional idea of private property is eventually dissolved. And it is probably not the most important.

Unless they own a majority or a large minority of a corporation's shares, 'owners' have no appreciable power over the company's actions. In addition, they usually do not know what those actions are. If they do know, and disagree, as a practical matter they cannot contact other 'owners' to try and bring these actions to a halt through collective action.

Often corporate shares are owned by mutual funds, and in these cases many individual 'owners' often have no idea of what shares they 'own.' They essentially hire fund managers to steward their wealth, hopefully better than they could. Fund managers have a fiduciary obligation to maximize share value, not shareholders' individual values, which for the most part they have no way of discovering. Mutual fund 'ownership' distances 'owners' even farther from having any impact on corporate decisions, and therefore reduces the impact of any values they have other than maximizing money wealth.

Any 'owner' who discovered unethical corporate behavior could sell his or her shares in protest, but they would be purchased by others either ignorant of what was happening or who did not care. Selling a share need not increase the pressure to change corporate behavior. In fact, if the unethical behavior is profitable, selling shares imposes a financial loss on ethical shareholders while enabling less ethical or knowledgeable shareholders to make even greater financial gains. If a group of ethical shareholders sold considerable stock, these less ethical buyers would make additional income by taking advantage of lower share prices caused by a temporary glut of stock that does not reflect anticipated lower profits. As Mises defined capitalism, when there is an ethical conflict, financial resources will tend to move from the more ethical to the less.

Not only is the average shareholder powerless to change bad policies unless he or she wants to organize a boycott (which is no easier for share owners than for non-share owners), they are also powerless to reduce 'their' resources devoted to wrong doing. So-called 'owners' either must profit from behavior they oppose or, by selling their shares, transfer them to someone else who will then profit from that behavior. So long as they are profitable, the bad actions will continue.

The two most basic principles behind owning private property, control and responsibility, are virtually non-existent in most ownership of publicly traded shares.

WHAT REPLACES OWNERSHIP?

I am describing a systemic feature of a certain kind of market economy, not a characteristic of people acting within them. Mises emphasized people acted based on a wide range of individual motivations, not all of which had to be compatible with seeking the maximum profit. I agree with him completely, and my experience running a profitable business for many years illustrates this truth. But actions always take place within contexts, and contexts are never neutral. Any context makes some actions easier to pursue and others more difficult. The actions I can take as owner of my business, or of other private property, are different than the actions I can take as a owner of shares. Some are the same: I can buy and sell. But others are different, some very much so. Under Misesian capitalism, shareholders have traded traditional ownership for stewarding shares in the interests of maximizing money profit as determined

by the market. Their position and skills are akin to that of a fund manager (to whom many subcontract) not to an owner of what we think of as private property. The equivalent of a manager's fiduciary responsibility to their client is that they will lose stewardship opportunities to the degree they fail to serve the market. In both cases they buy and sell and gain if they successfully anticipate changes in price.

Property owners embedded in a rich context of values, where prices are one important factor among many in influencing how resources are used, have been replaced by stewards responsible for maximizing money profit alone. Beyond that, how something is used is not important. The more sellers' and buyers' actions correctly anticipate market performance, the better they do, and potentially the more shares they can steward. Those poor at it are weeded out of any stewardship responsibility at all. The value of a person's shares reflects their success as stewards, not as owners. Shareholders have become the market's agents, and are rewarded to the degree they encourage companies to act in keeping with purely monetary values.

If we must persist in using the language of ownership, corporations are 'owned' by the market and shareholders are its trustees. Publicly held corporations are designed to be as completely responsive to market dictates and in harmony with its incentives as a human institution can be. People come and go, and shares may pass through many 'owners' who have neither power nor responsibility over them in the senses we usually think of regarding private property. But the market process dominates what companies do on pain of their being taken over by other people or companies acting in greater harmony with market incentives and dictates.

Had I turned my business into a publicly held corporation and continued to make choices similar to those I made as an owner, I would have become vulnerable to a take-over bid. Corporate raiders, who believed subordinating everything to maximizing share value would make them more money, would soon make other shareholders inviting offers. These hypothetical raiders would be attracted to my company not because they wanted to run a business but rather by the possibilities of making a profit by selling more valuable shares once the business's resources are more completely subordinated to the demands of the market. As an owner, I was free to make the value trade-offs I wanted to make. Prices were signals. As a manager those same prices became commands I disregarded at the risk of losing control of the enterprise I had created and now managed.

People own and operate a privately held business for many reasons. A publicly held corporation exists ultimately for one reason.

ELIMINATING THE HUMAN ELEMENT

When an organization exists only to maximize making money, being fully human becomes a problem. Today even important managerial functions at major hedge funds such as Bridgewater Associates are being turned over to computer programs in order to eliminate the 'fallible' human dimension in financial management (Copeland 2016). Today it is easy to anticipate a time not that far off where important investment decisions will be made without any input by messy human values at all, because human beings will have been largely eliminated from the process. From computerized buying and selling stock, to managing the organizations in whose names the buying and selling happens, in principle, virtually no human element need remain. People will prosper to the degree they can serve this process.

Nor need value added by improving this process do anything to improve human well-being. Peter Barnes helped manage Working Assets as a socially screened money market fund, which meant values other than money income were to be a part of its investment strategy. Working Assets was privately held. At one point Working Assets considered going public with an initial public stock offering. Barnes writes "Our investment banker informed us that, simply by going public, we'd increase the value of our stock by 30 percent. He called this magic liquidity premium. What he meant was that stock that can be sold in a market of millions is worth more than stock with almost no market at all. The extra value would not come from anything we did, but from the socially created bonus of liquidity." Working Assets ended up not going public because "we didn't want to be subjected to Wall Street's calculus" (Barnes 2006, pp. 67-68).

"Wall Street's calculus" would override the decisions and values of the then owners of the company. They would still own stock, and presumably be the richer for it financially, but the values associated with private property are not simply financial, and those values would be subordinated to an impersonal market calculating whether the company's assets were being utilized with maximum efficiency in seeking wealth. I suggest this 30% "liquidity premium" approximately measures the profit opportunities that open up once private owners motivated by complex values are replaced by the market and its values. In market terms this is more ef-

ficient. In human terms, it is an impoverishment of the values able to be expressed within the economy. The market determined that eliminating human values from the use of resources increases their money value by 30%.

Mises' definition of capitalism as a system that brings "the original properties of a concern under one denomination, whether they consisted of money or were only expressed in money… [and so, enables] us to ascertain how much the value of this property has altered in the course of business operations" completely subjects life to Barnes' "Wall Street's calculus," where Mises' "signals" have become commands (Mises 1981 [1922], II.5.35).

Private property as it has historically existed, and which Hayek described as foundational to freedom, is no longer necessary. In fact, it is actively selected against, and converted into 'market-owned' property. 'Owning' a small minority share of a corporation is the opposite of what we normally mean when we say someone 'owns' something. People cease being owners of property and become its stewards.

Mises' "capitalism" is not reducible to Hayek's "capitalism." Each points to different, even contradictory, kinds of relations although both are compatible with market economies. For example, if Hayek's argument for private property being foundational to democracy is valid, the fate of democracy is at severe risk under Misesian capitalism.

MILTON FRIEDMAN BLURS A DISTINCTION

In 1962 Milton Friedman wrote *Capitalism and Freedom*, another very influential book helping to rehabilitate capitalism in the eyes of many (1962). In it he combined Mises' concept of capitalism with Hayek's, even though they are ultimately incompatible. Since much of Friedman's less technical writings were concerned with people's freedom to choose among alternatives, I believe he was not aware of his argument's theoretical and political incoherence. But the road to Hell, as they say, is paved with good intentions.

Using the logic of private ownership, Friedman argued a corporate CEO's sole legitimate job is service to shareholders. Pursuing other values to the cost of shareholder returns was a kind of theft from the owners (1970; 1962, chapter 8). Hayek agreed (1979, p. 82; 1967, p. 312). Friedman emphasized managers have no "social responsibility" to anyone but shareholders. If a corporation performs a "public service" that costs the company money, it must be able to justify it in terms of its bottom line. Friedman contended more complex value choices balancing making money with other priorities were properly the responsibility of individual shareholders, not CEOs.

This observation is reasonable when applied to people employed by private owners as trustees to manage their property. It is misleading when applied to publicly held corporations where traditional private property does not exist for many, (unless there is a majority shareholder). The corporation will not be serving shareholders as owners, but shareholders as stewards of market resources.

From Friedman's perspective, corporate capitalism is an example of freedom in action even though private property as it has traditionally played a role in preserving freedom has been dissolved. For Friedman, freedom is choice and yet choice in a capitalist economy is increasingly subordinated to putting financial profit over all other values. Because most human beings are not comfortable with such an ethic, increasingly, dominant financial enterprises seek to eliminate the human element from financial decision making. Meanwhile, all remaining humans must serve capital growth, or be expelled from influence over allocating capital.

SYSTEMIC BIASES

These implications were hidden from the sight of capitalism's defenders because so many market advocates equated whatever the market manifested with expressing the freely made choices of people engaging in voluntary transactions. Freedom is choice, devoid of context. The impact of the system of market coordination within which exchanges are made was ignored, yet this system provides a context for success or failure every bit as powerful as an ecosystem does for the organisms seeking to live within it. In fact, any system of rules carries a value bias that shapes who and what can succeed within it (diZerega 1997).

In a free society, the market is but one spontaneous order among many, albeit a critically important one (diZerega 2013). For example, Hayek and Michael Polanyi also described science as a spontaneous order (Hayek 1978, pp. 180-83; Polanyi 1998, pp. 195-96; 1969, pp. 49-72). Scientists practicing science create very different results from business people practicing business partly due to different interests and partly because the rules they follow are different.

For example, the market values information that is scarce relative to demand, so people are willing to pay for it. The most valuable information yields enormous profit in part because access to it is controlled by the owner. Science values information that is abundant relative to demand, so it

can be applied as widely as other scientist wish, and often in unexpected ways. A scientist writes a paper to be read by as many as possible, and is professionally unconcerned with making money from it. A market-oriented author also wants to be read by as many people as possible, but only if they pay for it. Writing a widely used scientific text book can make a scientist considerable money, and to ensure continued sales, chapters are often rearranged from edition to edition so previous editions with the same information cannot be easily used in classes. However, writing such books yields little professional recognition. On the other hand, writing a paper available for free to all might lead to a Nobel Prize.

Neither the market nor science can be described as simply the expression of free men and women cooperating together. Both are emergent outcomes arising from formally voluntary cooperation within a given context of rules. Reducing a free society to either scientific or market values is reductionism of the crudest sort. The larger encompassing context within which people engage in voluntary cooperation is often, I think appropriately, called civil society: a field for voluntary cooperation among status equals in which markets, science, and other social institutions provide contexts for different kinds of projects. Civil society, and not any subset within it, is the ultimate context for freedom (diZerega 2014a).

MURRAY ROTHBARD OBJECTS

Some Austrian oriented libertarians were unhappy with the too easy equation of capitalism with a free society, but for reasons quite different from mine. For example, another student of Mises, Murray Rothbard, wrote:

> If we are to keep the term 'capitalism' at all, then, we must distinguish between 'free-market capitalism' on the one hand, and 'state capitalism' on the other. The two are as different as day and night in their nature and consequences. Free-market capitalism is a network of free and voluntary exchanges in which producers work, produce, and exchange their products for the products of others through prices voluntarily arrived at. State capitalism consists of one or more groups making use of the coercive apparatus of the government—the State—to accumulate capital for themselves by expropriating the production of others by force and violence (Rothbard 1972, pp. 60-74).

There has never been a "free market capitalism" in the sense Rothbard described, and there never will be. The market in any complex sense is made possible by a set of rules about property rights and contract which can reasonably vary from place to place and from time to time. Government in some sense is sometimes required to modify and clarify rules such as what do and do not qualify as property rights (diZerega 2013a, pp. 55-98). Regardless of the decision, some will benefit from it and others will lose. In Rothbard's sense of the term, there has only been and can only be "state capitalism."

Adding the term "state" to "capitalism" clarifies nothing and one could even say that it confuses our understanding since many Marxist critics of the Soviet Union have long termed it "state capitalism" (Howard 2001). Yet no one would describe the former Soviet Union as a market economy, even if elements of markets survived to make it more viable than it otherwise would have been.

Coming from another perspective, equating the 'state' with authoritative decision-making conflates traditional states, which are hierarchical systems of rule from above, with democracies, where rules are discovered through a political process of equals, a process ideally seen as neutral as to which rules are decided upon (diZerega 2011). This distinction is easily captured when we reflect that in wartime, when a clear and overwhelming majority exists for major issues, democracies act most undemocratically because democratic rules ensure freedom of speech, organization, and press for all.

On the other hand, Rothbard's reason for wanting to distinguish between "market" and "state" capitalism is very illuminating. We can see why by considering two observations by Hayek.

PEOPLE AND SYSTEMS

Hayek wrote "The interests of the organized producers is . . . always contrary to the one permanent interest of all the individual members of society-namely the interest in the continuous adaptation to unpredictable changes, an adaptation necessary even if only the existing level of production is to be maintained" (Hayek 1979, pp. 93-4). This kind of observation is at least as old as Adam Smith's famous remark that "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices" (Smith, 2003, Book I, Chapter X).

Hayek's second observation adds needed depth to these observations, and shifts our attention from the failings of individuals to the systemic context within which they act. Hayek wrote capitalism, in his sense of the term, "is a system which imposes upon enterprise a discipline under which the managers chafe and which each endeavours to escape" (Hayek 1973, p. 62). One way of dealing with these pressures is to adapt, and this is a significant reason why old products are improved upon and new products are introduced. This process of adaptation on pain of extinction is why so many economists and biologists alike have seen similarities between economics and the similar patterns we find in ecology and evolution (diZerega 2018).

However, unlike fungi, plants, and animals, businessmen and managers have a third option to adaptation or extinction. They can seek to change the rules in their favor. At least some business people will realize it is in their interests to seek political protection from market forces that threaten their profits. We have seen that both the logic of corporate governance and the ethic Friedman and Hayek said should apply to them, push CEOs to put safeguarding and maximizing profit above all other concerns, although Hayek emphasized more than Friedman that it should be within moral as well as legal limits (Hayek 1967).

This pattern is most clear with long established businesses seeking to safeguard their existing status. Today most government regulations of industry and banking benefits the bottom line of the dominant organizations. New businesses most often oppose government oversight. Older established concerns take a different view, seeking to encourage 'oversight' that benefits them as well as capturing agencies established during periods where reform efforts arose from the general population, such as regulations over pollution or unsafe labor practices.

For example, national standards for organic food emerged from a demand by dominant corporate producers of food. There was no demand for national standards by either local producers who pioneered the growth of organic food, or by the consumers themselves (Ruiz-Marrero 2004; Thomas 2015). The current move in many states to legalize marijuana is opposed by the largest producers in the beer industry. Confirming Hayek's second observation, beer sales, especially of the largest breweries, have declined most in states that have gone farthest in decriminalizing marijuana (Peterson 2016; Fang 2012). These corporations would rather have people go to prison than engage in open competition with alternatives to alcohol. To name a third, fossil fuel producers have become major political opponents of solar energy, arguing against subsidies to encourage solar while happily benefitting from much larger subsidies for themselves (Warrick 2015a; 2015b). The list could be expanded to fill a book, and the bias to favor existing companies and industries is clear.

Sometimes regulations originate in the political arena and are then "captured" by the industries they are established to control. Other times the regulations are demanded by leading industries themselves. The people making decisions for established corporations have both the motive and the means to seek to modify market rules to reduce the threat of competition and increase the security of their profits. Further, corporate logic leads them to act in this way. They serve shareholder interests better, the more secure and large their profits become.

These considerations illuminate a problem that has long frustrated advocates of 'free markets.' They argue government will ultimately control businesses, and so businesses should never seek political favors. But businesses continue seeking favors, and the bigger the business the more involved with favors it tends to be. Far from being shortsighted or making some kind of miscalculation, given the context within which they exist, these businesses are acting rationally. The supposed line separating the 'state' from the 'market,' so clear in abstract theories, ceases to be clear in practice, since people engaged in the one, are often also engaged in the other.

CRONY CAPITALISM?

Nowhere is this failure to integrate context into economics greater than with the term "crony capitalism." Efforts by businesspeople to influence policies and laws are nothing new. They are probably as old as business, or at least as old as businesses successful enough to seek to influence policies in their favor. It is as common on Main Street as on Wall Street. As Adam Smith observed, businessmen have an interest in safeguarding and increasing their profits, though in many cases other values modify or override this interest. Because in capitalism these other values are systemically eliminated, corporations are extreme instances of a tendency existing in any group of businesses. In other words, adding "crony" to capitalism is like writing about a "light white" or a "dark black."

But the problem with the term is worse than this. It misidentifies the problem.

"Crony" misdirects our attention from systems to individuals, from context to treating actions divorced from

context. Capitalism is unique not because it has "cronies" but because as a system of impersonal processes it selects out and rewards those who put profit above every other value. The value-depth and complexity of a system rooted in private property guided in its uses by human values and choices is replaced by the value-thin context of people being rewarded to the degree they serve purely financial values as determined by the market alone.

The key to understanding capitalism is the market's systemic impersonality and how certain kinds of organizations respond to it. A system is a network of relationships that mutually influence one another rather than a linear chain of causes leading to effects which are causes to still more effects. Individual actions can have powerful impacts within systems (think of Steve Jobs) but they are also shaped and made possible by the systems within which they act, and in acting, modify. As a system, the market operates the same way regardless of the personal values of the people acting within it. Depending on the context, this is its virtue and its vice.

Among his generation of Austrian economists, only Hayek was able to break free from the methodological individualistic assumptions that masked systems' independent role in social explanation (diZerega 2014b).

THE HIGH PRICE PAID IN MISUNDERSTANDING THE CASE FOR MARKETS AND FREEDOM

Hayek's observation that a system of exchangeable private property rights is the foundation for a free society, is strongly supported by history and logic alike. So is the observation that when people are deprived of personal control over resources needed to live, they become vulnerable to despotic control. When capitalism is taken as the normal expression of a 'free market' both points are obscured. The possibilities for how large-scale enterprise can be harmonized with liberty is hidden. Private property in production is dissolved even as the name remains and a new form of systemic despotism is arising and is called 'freedom.' What exists is a system of "Power, in the objectionable sense of the word. . .the capacity to direct the energy and resources of others to the service of values which those others do not share" (Hayek 1967, p. 301).

Hayek and Mises exhibit this blindness, one relatively humanely, one far from humanely. In his essay "The Corporation in a Democratic Society," Hayek discusses problems with corporate abuses of power. With respect to working people the only safeguard he sees to abuses of this power by corporations is "the facility the individual has for changing his employment." (1967, p. 302). He takes the hierarchical relation of 'management' to 'labor' for granted, connecting abstract theoretical roles with concrete individuals and failing to see the distinction. But Hayek at least acknowledged a significant problem existed, he just could not see a solution beyond being able to take another job.

Mises had no such sensitivity. In a letter to Ayn Rand celebrating her book *Atlas Shrugged*, Mises wrote "You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the effort of men who are better than you" (Quoted in Burns 2009, p. 177) .

Freedom was redefined from control over one's life and not being subordinate to others (hence the desirability of private ownership and -- at first -- a republic of small farmers) to choice as a consumer. Since everyone consumes, free choice is freedom and economic success depends on serving consumers, hence on serving everybody. Authority relations in industry are unimportant since workers are essentially serving themselves in another guise, as consumers.

This focus on 'consumer sovereignty' not only fragments what it is to be a human being, it blinds analysts to people's circumstances when they are not consuming. Capitalism's systemic logic encourages companies to limit employees' freedom, such as seeking to make what their employees learn on the job the property of their employer. If they leave, they may not use what they have learned. This practice has gone so far as for a janitor in Seattle to be barred from taking a better paying position with another company because of a "non-compete" clause he signed when taking the first position (Westneat 2014a; 2014b). Increasingly people do not control their time even when they are not on the job. They are forced to be "on call" in case their manager wants them to show up, but not paid unless actually called to work. Nor do employers often need to give any notice for changes in workers' schedules. It impossible for employees to organize their daily life or plan a monthly budget because they have no idea what they will make or when they must be on the job (Greenhouse 2014).

Its impact on employees' off-the-job lives underlines the truth that capitalism is a political economic phenomenon and, in Hayek's terms, a threat to freedom. With respect to understanding capitalism, relying on economics alone, separated from politics, is like studying animals while ignoring their environment. That would be bad biology. The social

science equivalent is bad social science. Political economy is the context in which both actual economies and capitalism in particular can be understood.

Even when Mises and Hayek wrote, solutions existed that preserved both the market mechanism and a strong system of private property rights and contract in the context of big industry and mass production. By far the most impressive example among many are the Mondragon worker managed cooperatives in Spain, which today are major centers of large scale manufacturing, education, and research. In these enterprises, rather than controllers of capital hiring and subjugating labor, labor hires and manages capital (diZerega 2014c; Ellerman 1982). Alternatively, as Alaska pioneered with its Permanent Fund, capital resources that are not the creation of human action, such as natural resources, and even the enhanced value of corporate shares due to the special privileges they are given, can be distributed among the members of society as a whole (Barnes 2006; 2014; Murphey 2009). Again, no violation of principles of private ownership or freedom of contract is involved. But these examples, which have existed successfully for decades, are ignored by advocates of 'free markets' who confuse them with capitalism. Equating capitalism with markets blinds people to their significance.

CONCLUSION

Capitalism is a variant of a market economy, one where to an increasing degree the market process has freed itself from immersion in the thick value context of civil society and reversed that relation, increasingly subordinating civil society to the organizations which have evolved to respond only to maximizing profit. These organizations then use their resources to manipulate the rules in order to subordinate the market itself more completely to their service. People are rewarded to the degree they serve this system, but the system has become independent of most all human values. This is why it can now be integrated into computer programs that eliminate the need for 'irrational' human beings. We are its servants rather than it being ours.

If a market economy is a contractual system for exchanging private property, capitalism has absorbed and subordinated the market economy to something for which we do not have a clear term, other than "capitalism." As a system of economic and political organization capitalism defends itself against richer human values by penalizing and expelling people who put these values ahead of profit when making economic decisions. It is a new kind of oligarchy, a systemic oligarchy where oligarchs benefit financially but are themselves subordinate to the capitalist system. Capital, not oligarchs, rule.

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