

# The Political Forum

*A review of social and political trends and events  
impacting the world's financial markets*

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### SOME THOUGHTS ON CAPITALISM AS THE ASIAN MELTDOWN PROCEEDS

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Like everyone else connected to the financial markets, I have recently read with interest scores of articles about the so-called "Asian contagion." Virtually all have been interesting. Many have been highly informative. Some have been downright stupid. But none have provided what I think is a good framework for assessing whether the on-going bail-out programs have a chance at being successful, or for determining whether the economic turmoil in Asia might be providing a preview of things to come in the United States.

So I thought I would take a stab at the issue this week. And while I'm at it, I thought I'd do a little exploring into the nature and origins of capitalism, because I believe that such an exercise might add some perspective to the Asian situation and reinforce some of the points I would like to make.

I think that part of the problem that many economic pundits are having is terminology. Besides using the odd phrase "Asian contagion" to describe the mess over there, many people have also begun to use the term "crony capitalism" to describe what they see as the economic system that is at work in these nations.

In my opinion, the use of such sloppy phrases can only lead to sloppy thinking. It brings to my mind George Orwell's 1946 essay entitled "Politics and the English Language," in which he noted that language "becomes ugly and inaccurate because our thoughts are foolish." Making matters worse, he said, is the fact that the "slovenliness of our language makes it easier for us to have foolish thoughts."

The term "crony capitalism," for example, implies, I believe, that some "system" is at work over there that is different from capitalism elsewhere, but which follows some well established and orderly outline or model. This isn't true. What we are really seeing in Asia is ordinary capitalism marred by corruption, plain and simple.

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I'm not certain why people are reluctant to call it what it is. One reason might be that U.S. taxpayers would be reluctant to subsidize it, via greater IMF loans guarantees and other means, if it were called by its real name. Another might be because many of the practices that we call corruption in the United States are apparently not illegal in Asia.

Among these, as I understand it, are the routine exchange of sensitive "inside" information, routine trade in business preferences and favors, and of course, exchanges of cash, all between and among various individuals who have an interest in each other's financial well being and careers. These practices are so much a part of Asian society that they have, I believe, a polite term for it, namely *guanxi*.

In any case, the fact remains that "crony capitalism" is just a nice name for corruption, and it is imperative, in my opinion, that anyone attempting to divine the future course of the Asian economies and the on-going bail-out programs understand this.

It is equally important, I believe, to avoid thinking in terms of different types of capitalism, i.e., "crony" capitalism as contrasted, I suppose, with "the American form" of capitalism. There is really only one kind of capitalism, as we generally understand the term today.

The essentials of modern day "capitalism" are the private ownership of means of production, accompanied by a framework of laws that, with some limits and restrictions, protect the owner's right to the profits from this production; the owner's right to contract with suppliers, purchasers, and workers; and the owner's right to dispose of the profits and the property freely.

Laws governing a capitalistic system can vary widely. At some point, however, it is possible for the limits and restrictions to become so tight that the system can no longer be truly called capitalism. In my opinion, this is the case today in several European nations, due to their confiscatory tax systems, widespread restrictions on property rights, and aggressive government interference in the free exchange of goods and labor.

It is worth noting here that there are many nations in the world where that which passes for capitalism isn't capitalism at all. For example, it is highly questionable, I think, whether the Russian economy can accurately be described as capitalistic, since private property rights there, as guaranteed by law, are pretty flimsy. By some estimates, four of every five Russian businesses pay some form of protection money, and the government is either involved in the shakedown or powerless to do anything about it.

Unhappy Russians, who are beset by rampant crime, fraud and extortion, do indeed refer to the system that has replaced communism in their country as capitalism. But I think this is because there is no word that properly describes the economic system at work there.

There are a rich variety of words to describe types of governments. But there is, oddly enough, a paucity of words that can be used to distinguish between economic systems. So I will coin one. I think the term "anarchyism" (as contrasted with "anarchism," which describes a form of government or, more accurately, lack thereof) would describe the present Russian economic system today better than "capitalism."

There is a certain irony to this, since anarchy is exactly what the famous anarchist Mikhail Bakunin, one of Marx' most colorful and vociferous opponents, happily predicted would be the final result of the "withering away of the state," as forecast by Marx.

China, like Russia, is often referred to in the United States as an "emerging" capitalist nation. But this is pure tommyrot. It could, of course, be argued that the "means of production" in China are "owned" privately, since the bulk of the "profits" from the large enterprises end up in the pockets of private individuals, most of whom happen to be big shots in the government, senior military officials, or relatives and friends of such individuals. But this would be stretching the definition of capitalism to the breaking point. Personally, I think "kleptocraticism" might be the best way to describe the economic system that is slowly replacing communism in China.

It is possible that the economies in both Russia and China will eventually become truly capitalistic. But it is by no means a foregone conclusion, as many America's seem to think.

The rampant corruption that permeates Russian society is just as likely, in my opinion, to lead to some form of modern day fascism, as the citizens seek a "strongman" to "restore order" out of the chaos that reigns there.

As for China, I don't believe that there is any reason at all to suspect that the thugs who run that country today would ever give up control over the "means of production," unless it were to legalize and formalize their own de facto ownership. Personally, I think China will someday demonstrate to the world, as Russia did before it, and as Bukanan predicted, that the final stage of Communism is anarchy.

When considering this question, I think it is important to keep in mind that neither Russia nor China has had any experience with true capitalism. In fact, capitalism is very much a Western phenomena, tracing its origins 12th century Europe.

The word capitalism turns up in literature for the first time, according to the Oxford-English Dictionary, in 1854 in Thackeray's novel *The Newcomes*. The term capitalist had been around for over 60 years prior to that. The OED notes the use of the word by the agricultural writer Arthur Young in 1792 and Coleridge in 1823. Both Disraeli and J. S. Mill used it in 1845. It is interesting to note that in each case, the word was used in a pejorative sense.

In my opinion, Robert Heilbroner's classic book, *The Worldly Philosophers*, does the best job in explaining the emergence and maturation of capitalism. He begins by noting that markets have existed since the beginning of time. He points out that the Tablets of Tell-el-Amarna reveal that a lively trade existed between the Pharaohs and the Levantine kings in 1400 B.C.

But, he explains, the concept of "capital" as an ingredient, consciously accumulated and consciously applied, in economic affairs, and the related concept of "economic man" as we understand that term today, did not begin to take form until sometime in the 12th century. The crusades were one of the many catalysts for this phenomenon because they spurred the trade and exchange of goods across national borders.

Before this time, Heilbroner explains, the idea of "making a living" was not recognized. He puts it this way. "Work was not yet a means to an end--the end being money and the things it buys. Work was an end in itself, encompassing, of course, money and commodities, but engaged in as a part of a tradition, as a natural way of life. In a word, the great social invention of 'the market' had not yet been made."

"As long as the paramount idea was that life on earth was only a trying preamble to Life Eternal, the business spirit neither was encouraged nor found spontaneous nourishment. Kings wanted treasure, and for that they fought wars; the nobility wanted land, and since no self-respecting nobleman would willingly sell his ancestral estates, that entailed conquest, too. But most people--serfs, village craftsmen, even the master of the manufacturing guilds--wanted to be left alone to live as their fathers had lived and as their sons would live in turn."

"The absence of the idea of gain as a normal guide for daily life--in fact the positive disrepute in which the idea was held by the Church--constituted one enormous difference between the strange world of the tenth to sixteenth centuries" and the world that developed from that point on, and which slowly began to resemble our own.

The transition from feudalism to capitalism in Europe, as described by Heilbroner, was a long, tortured and complicated one. In fact, not until the late 18th century was capitalism even identifiable as a "system" at all, and then it took a man of Adam Smith's genius to do it.

Max Weber, the great German sociologist, notes in his remarkable book, *The Protestant Ethic and the Spirit of Capitalism*, that "the spirit of capitalism . . . had to fight its way to supremacy against a whole world of hostile forces." Among these forces, he notes, was the prevailing religious view "both in ancient times and in the Middle Ages," that working hard and accumulating assets was "the lowest sort of avarice and an attitude entirely lacking in self respect."

As such, Weber argues, one of the biggest boosts to capitalism was the Reformation. This boost began with the identification by Martin Luther of the theological concept of a "calling," a belief, as described by Weber, that the "fulfillment of worldly duties is under all circumstances the only way to live acceptably to God."

This "moral justification of worldly activity" was, Weber claims, one of the most important results of the Reformation. He notes that it contrasts starkly to the Catholic view that such activity was a natural condition of life, and thus morally neutral, like eating and drinking.

According to Weber, Luther did not put too fine a point on this theory. That was left to John Calvin, who made it one of the central themes of his religious teachings. Calvinism, of course, was the foundation for Puritanism, which lies at the heart of American culture. This explains the so-called Protestant work ethic in America, which was quickly secularized by the teachings of, among others, Benjamin Franklin ("a penny saved is a penny earned," "early to bed, early to rise . . .," etc.).

The point here is that capitalism, as we know it today, was formed in Western society, within the framework of the Judeo-Christian ethic. This framework helped to keep its natural predatory aspects from deteriorating into a totalitarian nightmare, while the system of laws described above slowly came into being. And, like it or not, it is the combination of these two today, law and a time honored body of moral and ethical beliefs, that keeps capitalism functioning smoothly in Western societies. One without the other would be disastrous.

Adam Smith, who first identified and explained the principles of capitalism, was acutely aware of this. Indeed, both of his major volumes on the subject, *The Theory of Moral Sentiments* and *The Wealth of Nations*, are filled with admonitions that corruption among businessmen was the greatest threat to the social and economic benefits of free markets, and that a combination of law and a moral society were necessary to protect against this threat. Space doesn't permit me to offer numerous examples of this, but I have always enjoyed the following two.

o 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.

o Were the officers of the army to oppose with the same zeal and unanimity any reduction in the numbers of forces with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; were the former to animate their soldiers in the same manner as the latter enflame their workmen to attack with violence and outrage the proposers of any such regulation, to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature. The Member of Parliament who supports every proposal for strengthening this monopoly is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolist.

Now I am not saying here that capitalism cannot function well in a non-Western society. The still-remarkable power of the Asian economies is testimony to this fact. But I do think that it is important to understand that capitalism will function differently from one society to another, depending upon, among other things, the customs, mores and religious beliefs that govern and define the relationships among individuals and between individuals and their governments.

If this sounds like a commonplace, or a platitude, I would simply point out that a great many people apparently did not understand this concept well during the past decade or so, while they were pouring money into what was described by the World Bank as "The East Asian Economic

Miracle," even though they knew, and the World Bank knew, that these economies were rife with corruption.

Indeed many people, including some very high up in the Clinton administration, thought the United States should emulate, rather than condemn, some of the most reckless aspects of "crony capitalism."

Someday, some enterprising graduate student in economics will, I imagine, discover that there is a correlation between corruption and economic cycles; that, for example, the peaks and valleys are more pronounced in a corrupt environment; that the duration of the cycles is more erratic; that the recovery periods from downturns are longer. And, most importantly, that the solution to reviving a corrupt economy isn't to pour more money into it.

Who knows, by the time this enterprising student gets around to the task, he or she might not have to use Asian nations as an example. He or she might be able to witness the phenomena right here at home.

Space doesn't permit me to expand on this thought this week. But suffice it to say that there are many signs that not only are the moral and ethical foundations of American society eroding, but the enthusiasm for enforcing the law among senior officials at the U. S. Justice Department and at the FBI appears to be eroding as well. If there is anything to be learned from the problems in Asia, it is that this is not a good sign for the long-term stability of the American economy.

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