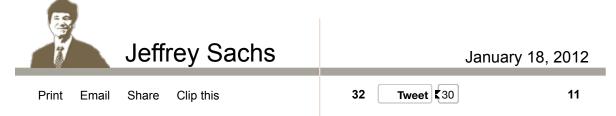


FINANCIAL TIMES



CAPITALISM IN CRISIS

Self-interest, without morals, leads to capitalism's self-destruction

Capitalism earns its keep through Adam Smith's famous paradox of the invisible hand: self-interest, operating through markets, leads to the common good. Yet the paradox of self-interest breaks down when stretched too far. This is our global predicament today.

Self-interest promotes competition, the division of labor, and innovation, but fails to support the common good in four ways.

First, it fails when market competition breaks down, whether because of natural monopolies (in infrastructure), externalities (often related to the environment), public goods (such as basic scientific knowledge), or asymmetric information (in financial fraud, for example).

Second, it can easily turn into unacceptable inequality. The reasons are legion: luck; aptitude; inheritance; winner-takes-all-markets; fraud; and perhaps most insidiously, the conversion of wealth into power, in order to gain even greater wealth.

Third, self-interest leaves future generations at the mercy of today's

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generation. Environmental unsustainability is a gross inequality of wellbeing across generations rather than across social classes.

Fourth, self-interest leaves our fragile mental apparatus, evolved for the African savannah, at the mercy of Madison Avenue. To put it more bluntly, our sense of self-interest, unless part of a large value system, is easily transmuted into a hopelessly addictive form of consumerism.

For these reasons, successful capitalism has never rested on a moral base of self-interest, but rather on the practice of self-interest embedded in a larger set of values. Max Weber explained that Europe's original modern capitalists, the Calvinists, pursued profits in the search for proof of salvation. They saved ascetically to accumulate wealth to prove God's grace, not to sate their consumer appetites.

Keynes noted the same regarding the mechanisms underpinning Pax Britannica at the end of the 19th Century. As he put it, the economic machine held together because those who ostensibly owned the cake only pretended to consume it. American capitalism, more secular and less patriotic, created its own vintage of social restraint. The greatest capitalist of the second half of the 19th century, Andrew Carnegie developed his *Gospel of Wealth*, according to which the great wealth of the entrepreneur was not personal property but a trust for society.

Our 21st century predicament is that these moral strictures have mostly vanished. On the one hand, the power of self-interest is alive and well and is delivering much that is good, indeed utterly remarkable, at a global scale. Former colonies and laggard regions are bounding forward as technologies diffuse and incomes surge through global trade and investment.

Yet global capitalism has mostly shed its moral constraints. Self-interest is no longer embedded in higher values. Consumerism is the world's secular religion, more than science, humanism, or any other -ism. "Greed is good" is not only the mantra of a 1980s Hollywood moral fable: it is the operating principle of the top tiers of world society.

Capitalism is at risk of failing today not because we are running out of innovations, or because markets are failing to inspire private actions, but

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http://blogs.ft.com/the-a-list/2012/01/18/self-interest-without-m...

because we've lost sight of the operational failings of unfettered gluttony. We are neglecting a torrent of market failures in infrastructure, finance, and the environment. We are turning our backs on a grotesque worsening of income inequality and willfully continuing to slash social benefits. We are destroying the Earth as if we are indeed the last generation. We are poisoning our own appetites through addictions to luxury goods, cosmetic surgery, fats and sugar, TV watching, and other self-medications of choice or persuasion. And our politics are increasingly pernicious, as we turn political decisions over to the highest-bidding lobby, and allow big money to bypass regulatory controls.

Unless we regain our moral bearings our scope for collective action will be lost. The day may soon arrive when money fully owns our politics, markets have utterly devastated the environment, and gluttony relentlessly commands our personal choices. Then we will have arrived at the ultimate paradox: the self-destruction of prosperity at the very moment when technological knowhow enables sustainable prosperity for all.

The writer is director of The Earth Institute at Columbia University and author of 'The Price of Civilization'

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