

The Latest Capitalist Manifesto

Fortune, April 1997

Every so often a book is published that commands attention for its scope, ambition, and physical size. *Capitalism* (Jameson Books, \$95.00), by Pepperdine University economist George Reisman, is such a book: It's an exhaustive survey and an impassioned manifesto, and is the size and weight of the phone book of an extremely large city. As Reisman writes on page 61 (out of 1,046): 'The remainder of this book can be summarized as demonstrating a single proposition: In every possible way, with no valid objection, the solution for the economic problem is capitalism.' Reisman backs up his claim. He shows, among other things, why capitalism is necessary to end poverty, mass unemployment, and environmental destruction.

Much of what Reisman covers will be familiar to students of economics, but *Capitalism* covers some of the more standard economics topics--the chaos caused by socialism, productivity as the source of large fortunes in a capitalist society, price controls--in a fresh and clever way.

Take price controls. Economically literate readers know that price controls, by holding prices below free-market levels, often create shortages. Reisman goes further, presenting at least three insights about the harm done by price controls.

First, many observers noted the apparently arbitrary distribution of gasoline due to price controls in the 1970s. In some areas of the country, people lined up for blocks to get gasoline; in others, lines were very short. Reisman shows why. In a free market, companies have an incentive to get gasoline to those willing to pay the most. A relative scarcity in, say, New Jersey, causes a higher price there, inducing oil companies to send more gasoline there. But price controls sever the link between price and supply. Why bother sending more gas to New Jersey if you can't get the higher price? Reisman writes: 'It largely ceased to matter to the oil companies how their gasoline was distributed.'

Second, Reisman shows how price controls drive prices to very high levels in uncontrolled sectors of the economy. Consider New York housing. Some

apartments are rent controlled; some are not. Assume that without rent control there would be one million apartments. These apartments would be rented to the million people willing to pay the most. Now assume the government regulates rents on half the apartments-- some of the people renting the controlled apartments will displace people who would have paid more. What happens to these people? Some of them will shift over to the uncontrolled market, competing with the half million people already renting in this market. As a result, rents in the uncontrolled sector are higher.

Third, by creating shortages, price controls change the relationship between buyer and seller. The seller no longer needs any individual buyer and thus 'views the buyer as a petty chiseler seeking values without payment.' The buyer 'views the seller as an omnipotent tyrant whom he must beg for favors or threaten with reprisals.' Reisman illustrates with a shortage-era quote printed in the New York Times from a gas station attendant: 'If he's that stupid, he waits in line an hour and doesn't know the rules, I let him get to the pump--and then I break his heart.'

Beyond such classic subjects, Capitalism includes much that's new, including a witty critique of the textbook model of perfect competition and Reisman's own theory of investment. His critique of environmentalism, in which he argues that environmentalists constitute the greatest current threat to capitalism, is especially vigorous. 'The green movement,' he writes, 'is the red movement no longer in its boisterous, arrogant youth, but in its demented old age.'

By and large, Reisman backs up his indictment of environmentalists. He quotes a National Park Service biologist who claims that people are a cancer on the earth and hopes for 'the right virus to come along.' Reisman notes that these aren't just ideas of the lunatic fringe; John Muir, the founder of the Sierra Club, said similar things, and mainstream environmentalists have not disowned such inhumane sentiments. Reisman also points out that the environment has changed dramatically for the better in many ways with the advance of capitalism. For example, the places in the world with the safest drinking water are places with modern purification plants. Before capitalism, streets served as sewers; before cars, horses created an enormous pollution problem. This is all obvious, but what's striking is how rarely anyone says it.

Overall, Capitalism is a book you would want in your library if you want to know what a consistent, intelligent advocate of capitalism would say on almost any economic issue.