

LAISSEZ-FAIRE CAPITALISM, LIMITED GOVERNMENT, AND THE PURSUIT OF HAPPINESS

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Mr. Illarionov and Mr. Lin are speaking today about a topic of the utmost immediate importance—how to control and reduce the role of the state so to produce high economic growth and, with high economic growth, to produce a society in which people have more access to the things that money can buy. I, on the other hand, am going to be completely impractical, and talk about the importance of limiting government so that day-to-day life is richer in friendships, fulfilling family life, and functioning communities—so that life itself is richer and more satisfying. So that life is happier.

What is the point, you may ask? We here today are not poets or philosophers. If Russia can solve the problem of sustaining high economic growth, happiness will take care of itself.

That's not necessarily true. At this point I must tread very carefully, because I am going to venture into the topic of Russian culture, always a danger for a non-Russian. In my defense, I will say am not completely ignorant on the subject. I used to read *Pravda* every day. I used to be able to recite most of Pushkin's *The Bronze Horseman*—in Russian. And if that doesn't impress you, my girlfriend in my senior year was named Irina Setchkaryof. But I am a foreigner nonetheless, and there is nothing more irritating than a foreigner who tries to tell you about your own culture. Believe me, we Americans know what it's like. But here is my thought regarding Russian culture, and if I'm wrong, you can tell me why:

This is the land of Mussorgsky and Tchaikovsky, Tolstoy and Dostoevsky, Pushkin and Lermontov. It is the land of the Third Rome. Throughout Russian history up to the October Revolution, Russian culture was romantic, deeply spiritual, and absorbed in questions not of materialism but of the human soul. The pursuit of money and career never sat as comfortably with the Russian vision of the good human life as it did with the English or American visions.

Then came Communism. The Bolsheviks had a vision of how people should live together that, in its most idealistic form, was also romantic. Then for 70 years the system pounded in to people's heads the idea that that the pursuit of money and career—individualism of all sorts—

was evil. It pounded into people's heads that the only way someone could be rich was to be a thief. It said that laissez-faire capitalism and all its works were destructive of human happiness.

The combination of Russia's pre-Bolshevik romanticism and post-Bolshevik Soviet Realism had a devastating effect on the Russian perception of capitalism. As far as I can tell, capitalism has no *moral* standing in Russia. Capitalism is the system that won, the system that has to be adopted if a country is to advance economically. It does not represent virtue. On the contrary, capitalism is founded on greed and selfishness. It is a necessary evil. Tell me if I'm wrong, but I believe this remains the overwhelmingly most common opinion of Russian capitalism. Furthermore, I speculate, this opinion is not going to change just because Russia gets richer. It will change only when Russians change their mind about the moral nature of capitalism, and that is my topic.

First, let's make sure that we're talking about the same thing. I am speaking specifically of laissez-faire capitalism, not state capitalism or even corporate capitalism. The true goal of laissez-faire capitalism is not to get rich. Laissez-faire capitalism does not consist of taking advantage of your government contacts and paying some bribes so that you get the big contract. Laissez-faire capitalism does not consist of intimidating your competitor with threats, or of conspiring with your competitor to fix prices. Such behaviors *are* theft—and fraud, and viciousness, and corruption. These have been the hallmarks of every economic system since the dawn of history.

Laissez-faire capitalism is the economic expression of human freedom, through private ownership and the right to engage in trade free of arbitrary government restrictions. To implement laissez-faire capitalism requires limited government, the political expression of human freedom. The role of government is to stand between you, the individual, and the use of force. If anyone tries to intimidate you or prevent you in any way from peacefully going about your business, the government's resources will be devoted to stopping that person. If someone breaks a contract he has made with you, the government will enforce the terms of that contract.

The role of the government is to protect you from fraud. If anyone cheats you, or misrepresents his part of the bargain, the government will give you ways of recovering your losses, and will punish the person who committed the fraud.

That is government's part of the bargain. And then came the genius of laissez-faire capitalism, the insight that is at the bottom both of economic growth and a rich, meaningful personal life, an insight can be put in a single sentence: *A voluntary and informed exchange benefits both parties.*

It is an inescapable truth, a truth by definition. If I give you money for a loaf of bread, of my own free will, I want the bread more than I want the money. If you sell it to me of your own free will, you want the money more than the bread. Both of us think we will be better off after the exchange than we were before the exchange. When the exchange is fully informed—meaning not only that all the facts are available to both parties, but both parties use good judgment—both parties really are better off after the exchange.

This does not mean that every voluntary exchange works out the way we expected. People can make mistakes and pay too much for something. People can wish for things that, once they have them, are not as wonderful as they expected. But if mistakes are to be made, at least we are making the mistakes for ourselves. The only alternative to engaging in voluntary and informed exchanges is to engage in involuntary or fraudulent ones.

Because the other person has the option of saying “no” to my offer of an exchange, many good things happen. Not just in an ideal world, but in the real world. A few weeks ago, I bought an automobile—a Honda, as it happens. The corporation that makes it is worth billions of dollars, and I am one middle-class consumer. But the executives at Honda have not one bit of power to force me to buy their car. They have no power to force Toyota or Ford out of the market so that they can limit my choices. And so Honda works relentlessly to create a product that I will voluntarily choose instead of a Toyota or Ford. And they do all this because they *trust* me to recognize the merit of what they have done. It is one of the most easily overlooked aspects

of laissez-faire capitalism: Great business enterprises make huge investments based on trust—trust that their customers will make rational choices and reward better products by buying them. Am I being idealistic now? No. *Trust* is the right word, and the effect is just as I have described it. If you disagree, let me offer this challenge: Name for me any product sold in Western Europe and America during the last century—automobiles, computers, washing machines, breakfast cereals, skiing equipment, garden tools; any product at all—that has *not* gotten better, or cheaper, or both. I submit to you that you are going to have a hard time coming up with any nominations, and I can give you thousands of products that have become incomparably better in every way. It isn't because the technology got better. The technology got better because making better products is what most companies try hard to do, trusting that their customers will reward them.

So far I have been giving you elementary truths about laissez-faire capitalism that are familiar to every American in the room and to most Russians who choose to attend a conference sponsored by Cato. They need repeating nonetheless, because if we went outside this hall and spoke to a random 100 people in the streets of Moscow, I predict that no more than one or two—perhaps none at all—have ever thought about laissez-faire capitalism in this way. They think that laissez-faire capitalism is theft. It has never occurred to them that laissez-faire capitalism is the economic expression of trust and cooperation. So there is much missionary work to be done repeating these elementary truths.

Now let me extend this argument about laissez-faire capitalism to an argument about limited government and the pursuit of happiness in private life. To pursue happiness, we need a few raw materials. We need enough food, for example—you can't pursue happiness if you're starving. We need shelter and clothes. We need protection from criminals and others who would do us harm. We need self-respect—a way of thinking about who we are and what we have done with our lives that enables us to hold our heads high. We need intimate, satisfying relationships with other human beings—none of us can be happy if we are lonely and friendless, no matter how rich we might be.

At the time the Soviet Union collapsed, it had a governmental system for all the material needs—food, clothing, shelter, health care, and the rest. But that same Soviet system seemed designed to make genuine self-respect and satisfying human relationships as difficult as possible.

Self-respect became so difficult because of both Soviet ideology and Soviet practice. Soviet *ideology* said that pride in one's individual accomplishment was egoistic and anti-social. This contradicts a fundamental characteristic of human nature, to take pride in what we do as individuals. Soviet *practice* was of course completely different from the ideology. Your status in society was a product of your rank in the hierarchy as established by the state. For example, what mattered was not whether you were the director of an automobile factory that made better and better automobiles. What mattered was that you were the director. Performance was irrelevant. Rank was everything. The real source of self-respect—genuine accomplishment—was ignored, and a fake was substituted for it—the fake accomplishment of rank, achieved by the ability to rise in the bureaucracy. It is an ability that seldom is linked to merit as a person.

Turning to intimate personal relationships, the Soviet system did its best to destroy traditional Russian warmth, generosity, trust, loyalty, and all the other virtues in intimate personal relationships. The most bizarre single aspect of the Soviet world was that it was so difficult to be nice in public—as anyone who recalls the service in Soviet restaurants must agree.

Generosity and warmth had to be revealed in secret, as it were. And what great generosity, and great warmth, existed in those secret places. Let me tell you a story from my first visit to Moscow back in 1990. My wife and I had been told to get in touch with a couple in Moscow. We didn't know them personally; they were the cousins of a friend of my wife's. We called them as instructed. We were told we must come to dinner. We did. They were not part of the *nomenklatura*—he was an ordinary engineer, as I recall, and she was a school teacher. They lived with their two children in a one-bedroom flat. But they laid on a lavish dinner for us that included borscht and roast duck and three kinds of vodka.

When the borscht was served only my wife and I got bowls. We were told that our hosts weren't hungry. What had happened, I am sure, was that they had not been able to get enough ingredients to make borscht for everyone. The duck and the rest of the lavish meal must have represented favors called in from friends. All this was done for people whom they had never met and would never see again, just to be nice to the friends of a distant relative in America. That's the generosity and warmth *strangers* got from ordinary Russians. I am sure that to all of my Russian listeners, it is a trivial example of the much more important kinds of generosity and warmth that existed between Russian friends. What my wife and I experienced was not exceptional, but typical of an inner social life of Russia that persisted throughout the decades of communism, no matter how cold and indifferent the public world so often seemed to be. Russian warmth, loyalty, generosity, and kindness were reserved for the private world, the one that has nothing to do with politics.

Here is my point: *That's where the social virtues reside in every society. They flourish where government does not intrude.* In the case of the Soviet Union, only a few small corners of private life were left untouched, and the islands of rich social life had to flourish in those confined spaces. In the case of a liberal democracy, the space for private life is larger. But the dynamics are the same in both cases. Was it hard to get service from a waiter in a Soviet-run restaurant? Perhaps, but no harder than to get service from an American bureaucrat. Many years ago, before I had visited here, Ed Crane, the President of Cato, returned from a visit to the Soviet Union. I asked him what it was like. He said, "It's like being in a country where everything is run by the Virginia Department of Motor Vehicles." If you have ever tried to get an American driver's license, you know what Ed Crane meant.

The advantage you have in Russia is that many of the government bureaucracies have either collapsed or are so inefficient that no one uses them any more. You have a choice of whether to build Russian society with institutions that rely on central bureaucracies, or ones that rely on individuals, families, and neighborhoods. I am not in a position to tell you how this can

be done as a practical matter. That must be left to those of you who understand Russian politics and institutions better than I do. But I can explain to you the dynamics—why it is possible to leave the responsibility for the great social tasks to the smallest, most decentralized units.

The basis for my explanation is this famous quotation from the English political philosopher, Edmund Burke:

To be attached to the subdivision, to love the little platoon we belong to in society, is the first principle of public affections. It is the first link in the series by which we proceed to a love to our country, and to mankind.

What are our little platoons? Our families constitute the most obvious example. Neighborhoods can be little platoons. So can social organizations and workplaces. But we all know that sometimes these little platoons work well and sometimes poorly. Some marriages are much richer than others, some neighborhoods are much more closely knit than others, and some factories are much more satisfying places to work than others. The question therefore becomes not just what little platoons are, but why they work. What makes little platoons strong or weak, effective or ineffective?

Begin by considering the things in which you take satisfaction, and why. If possible, focus on some specific achievement in your life—in your work, your family life, whatever—that stands out in your mind as something in which you take satisfaction. I suggest that the reason you take satisfaction in it is a product of three factors: the degree of *effort* you put into it, the degree of *responsibility* you had over the outcome, and the *importance of the function* it serves.

For degree of effort, let me use a simple example that applies to all the parents in the audience. How much personal satisfaction do we take from our role as a parent? All of us love our children, I assume. I'll also assume that all of us are pleased if our children turn out to be good human beings. But some parents in this audience have been deeply engaged in their children's upbringing, not only loving their children and wanting the best for them, but spending thousands of hours and a huge degree of personal effort in raising them. Other parents in this audience—and I'll admit, we men are the most likely suspects—have spent much less time and

effort in raising our children. The pleasure that parents take in their children's success can be the same for all parents, but the level of personal *satisfaction* that we can take in being parents varies according to the level of effort we have put into it.

For illustrating the importance of the degree of *responsibility*, I offer another simple example. If you are a construction worker working on a building, you can take pride in your skill, but you have no responsibility over the way the building looks and only a tiny bit of responsibility over how well the building is built. If you are the architect who designed the building or the supervising engineer, you have a great deal of responsibility. If you are the architect or supervising engineer, the potential for satisfaction in the work you did on that building is greater than that of the construction worker.

For *importance of the function*, still another simple example: Many of us have hobbies that we enjoy, whether playing the piano or fishing or collecting stamps. You may *enjoy* the hobby more than you *enjoy* being a parent. But when it comes to *satisfaction*, most of us take more satisfaction from being a parent, because of the greater importance of the function.

The same conditions that shape individual satisfactions—effort, responsibility, and importance—apply to little platoons, and they have direct implications for good social policy. If you want to have weak families, then do what the Soviet Union did: strip the family of as much responsibility as possible. Make the state the source of decisions about education of the children, the source of financial support when fathers desert the family, the source of subsidies and special treatment.

If instead you want to have strong families, get rid of every government subsidy or program that tries to help families. If this sounds paradoxical, consider all the cultures in the world where men yearn to get married, where they will often pay large sums of money to the bride's family to be married, where being a husband and father is considered the mark of being a man. In every one of those cultures—without exception, I will assert—the roles of husband and father are laden with the heaviest of responsibilities and the hardest standards to live up to. Now

consider the cultures in the world where marriage was once strong but now is weak, where fathers often never marry the mother of the children they have created and don't even bother to keep in touch with the children, where women don't want to get married because having a man around is too much trouble. In every case—again, I will assert, without exception—they are cultures in which the government has made it easier to get married, easier to get a divorce, easier to get away with not supporting one's children. The family, the brick with which every healthy society is constructed, flourishes where the government does least, and withers where the government “helps” the most.

Consider neighborhoods. Do you want weak neighborhoods in which the people are suspicious and hostile towards each other? The Soviet housing block was the perfect example of how to create a weak neighborhood: Assign people to the housing block without any consideration of the wishes of the families who already live there, so no one has any incentives to become accepted by the neighbors. Don't let people own the apartments, so that they have no incentive to invest in the upkeep of the apartments. Don't give the apartment block any responsibility for the health and happiness of the families who live there.

How do you get strong neighborhoods instead? The answer offers one of the most powerful examples of how impersonal markets work to produce social goods: The nature of the transactions between people who want to live in a neighborhood and the people who already live there.

It starts with the buyer and the seller. In the case of people with lots of money, the process is easy to describe. Rich people look for a neighborhood that is safe from crime, has good schools, and is convenient to the places they want to go. They find such a place and buy whatever housing they like. I suspect such neighborhoods of the rich are forming all around Moscow. They can be pleasant places to live, and they are examples of people moving to neighborhoods where they are happy, but they are the most boring example of how markets work. For people with a lot of money, the geographic neighborhood where they live is not

usually an important part of their life. On the contrary, they often want space and privacy, and want to hire people to take care of work such as policing the neighborhood and making the grounds of the house or apartment look nice.

People without much money provide a better example of how markets create neighborhoods. If I don't have much money, I can't go out and buy the perfect apartment in the perfect neighborhood. I have to limit myself to the places I can afford. But low-income neighborhoods differ. Some are neat and orderly, filled with family life. Some are messy and rowdy, with lots of bars and nightlife. Others are in between. Even if I don't have much money, I go to the one that I prefer and try to find an apartment to rent.

Suppose I want to rent an apartment in one of the neat and orderly neighborhoods. The person who owns the apartment decides whether to rent to me. The owner is not looking just for the right amount of money from me for the first month's rent. He is also deciding whether I will be a good tenant. He doesn't want to rent to someone who will trash the place, be late with the rent, or get in fights with the neighbors. His incentives may be purely economic, but their effect is to weed out people who won't fit in the neighborhood. To get the apartment, I need to bring something besides money to the transaction. I need to bring evidence that I will be a good neighbor.

Once I am in the neighborhood, the second set of transactions set in. The other people also have an investment in the neighborhood staying the way it is—that's why they have moved into it. And so my acceptance as a neighbor depends on how I behave. If I behave badly, I will be subject to a wide variety of social penalties. If I behave well, I will be eligible for a wide variety of social rewards.

Imagine these kinds of choices made thousands of times by thousands of people looking for places to live and thousands of people deciding who they want as neighbors. It is by such processes that we see the development of neighborhoods that once characterized Paris, London, New York, and every large city—pre-Bolshevik Moscow too. Those neighborhoods spanned the

range from the worst slums to neighborhoods of mansions, but the extremes were the exceptions. The middle of the range, encompassing the great majority of the population, consisted of neighborhoods that worked. They were neighborhoods filled with close friendships, with people who helped their neighbors in tough times, comforted the bereaved, celebrated the birth of new babies, and, in sum, provided satisfying roles that enriched people's lives. Such neighborhoods existed because they had important social roles to fill, and were free to form on the basis of the voluntary decisions of the people who formed them. If you want to give a chance for the generosity and warmth of traditional Russian culture to have an opportunity for expression on an ever-larger scale, give neighborhoods a chance to form naturally. Take the functions of neighborhoods away from the bureaucracies and give them back to the neighborhood. Leave the stuff of life where life is lived.

How? Here, I must admit that Western Europe and the United States in recent years do not offer good examples. The creation of the welfare state throughout the West has stripped family and neighborhood of much of the effort, responsibility, and importance associated with the functions of family and neighborhood, and we are witnessing the results in the form of deteriorating neighborhoods in lower-income areas everywhere from Italy to Sweden—and in the United States too.

I am asking that Russia look for inspiration not to the contemporary West but, first of all, to your own heritage. The Russian traditions of family and community life, celebrated by so many of the great Russian novelists, was wounded by 70 years of Soviet rule. But Russian culture is nothing if not resilient. Indeed, the resilience of Russia is perhaps the single most consistent theme of Russian history. The wounds to family and neighborhood will heal of their own accord if just two things can happen. The first is to give freedom a chance. As Russian economic growth continues, and hence the growth of government resources, do not use the new potential for tax revenues to fund government programs to “help” the family, or to take over

functions from the neighborhood. The best thing government can do for the recovery of traditional Russian social life is to get out of the way.

The second thing that must happen is a revolution in the intellectual conventional wisdom. Few Russian intellectuals still have any allegiance to Marx and Lenin, but many of them have adopted the views of Western Europe's social democrats, who are obsessed with egalitarianism and believe that the bureaucracies in Brussels can be trusted to make laws that run people's lives. Many Russian intellectuals are not even aware that another way of thinking about justice and social good exists. Another way does exist, and as a means of articulating that way for Russian intellectuals, perhaps we in America have something to contribute—even though we borrowed it from Britain ourselves. Namely, I recommend to you these three understandings:

- The understanding that human beings are endowed by their creator with certain unalienable rights; that among these rights are life, liberty, and the pursuit of happiness.
- The understanding that the pursuit of happiness does not consist of passively accepting whatever life brings your way, but of the individual actively assembling the raw materials of happiness—material resources, safety, self-respect, intimate personal relationships—into a life well-lived.
- The understanding that a life well-lived requires that people be free to make choices—thousands of choices, in matters great and small.

We have no guarantees that the choices we make will lead to happiness. But we do know, from bitter historical experience, that to have government make those choices deadens the possibilities. That is what John Locke, Edmund Burke, Adam Smith, and the other great thinkers of England and Scotland taught to the American founders, and that is the part of our heritage that I urge you to consider as the basis for your intellectual revolution. The lessons they taught were distilled by the author of the Declaration of Independence, Thomas Jefferson, just after he had

taken the oath of office as the third president of the United States. In his first inaugural speech, this is what he said:

What more is necessary to make us a happy and prosperous people? Still one thing more, fellow citizens—a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement.... This is the sum of good government, and this is necessary to close the circle of our felicities.

Thomas Jefferson did not think his words applied only to a new nation on the eastern coast of the North American continent. He thought they were truths that applied to human beings everywhere. That thought was premature. The Western world was about to go through the traumas of industrialization and urbanization that would lead the next generation of political philosophers—Marx among them—to propose socialism. Looking back with the wisdom of hindsight, socialism was a system that probably had to be tried, just as it had to fail. In the aftermath of the failure, in the presence of growing wealth and opportunities, perhaps it is time to see Jefferson's vision for what it is: not just a vision that could work for a struggling young culture at the opening of the nineteenth century, but one that can work for an ancient culture in the process of renewal at the opening of the twenty-first century.