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SYMPOSIUM: PETER BERGER'S ACHIEVEMENT IN SOCIAL SCIENCE

Two Cheers for Capitalism?

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Abstract According to a popular view that I call "two cheers for capitalism," capitalism's effect on development is ambiguous and mixed. This paper empirically investigates that view. I find that it's wrong. Citizens in countries that became more capitalist over the last quarter century became wealthier, healthier, more educated, and politically freer. Citizens in countries that became significantly less capitalist over this period endured stagnating income, shortening life spans, smaller gains in education, and increasingly oppressive political regimes. The data unequivocally evidence capitalism's superiority for development. Full-force cheerleading for capitalism is well deserved and three cheers are in order instead of two.

Keywords Capitalism · Socialism · Development · Peter Berger

In 1974 Peter Berger published his important book, *Pyramids of Sacrifice*. That book examines what Berger calls "political ethics and social change." In particular, it considers the "ethical dilemmas of development." As Berger (1986: 12) described the project 12 years later, *Pyramids of Sacrifice* was "largely shaped by my experience in and my reflections about Latin America . . . In this book I tried very hard to be evenhanded as between capitalist and socialist models of development, arguing that both should be assessed in terms of a number of moral criteria I proposed . . . I have had no reason to change these moral criteria since then, but precisely their application to the empirical evidence led me step by step to my present position, which is that capitalism is the morally safer bet."

Berger's position in *Pyramids of Sacrifice* was that capitalism has some benefits and shortcomings. The same is true of socialism. Between the two modes of political-economic organization, there's no obvious choice. To satisfactorily deal with development, thinkers on both sides of the capitalism/socialism debate must abandon their "dogmatic" adherence to extremes and forge a practical third way.

Although Berger later abandoned this position and came to the "pro-capitalism side," the view he expressed in *Pyramids of Sacrifice* is important to consider because it approximates a view that many people hold today. According to this view, although markets can be important contributors to development, they can also undermine it. Evidence for capitalism's effect on development is ambiguous and mixed. Thus we should be cautious and modest advocates of markets.

According to those who hold this position, social scientists who do not water down, qualify, and temper their praise and advocacy of capitalism as an engine of development are "ideologues," "dogmatists," and "free-market fundamentalists." They let wishful thinking contaminate their scientific views and privilege faith over the hard empirical evidence, which neither supports an "extreme" position in favor or capitalism for development, nor permits categorical claims for capitalism's superiority. I call this popular view "two cheers for capitalism."

Berger's (1986) later book, *The Capitalist Revolution*, urges social scientists of all stripes not to be "dogmatic," to generate falsifiable propositions and, most important for my analysis, to examine the evidence in light of those propositions. In the spirit of Berger's request, this paper evaluates the two cheers for capitalism view empirically. I selected the evidence I examine for this purpose on the basis

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of the two moral criteria that Berger says we should look at when considering development in his *Pyramids of Sacrifice*. The first criterion, which he calls the "calculus of pain," refers to the avoidance of human suffering. Berger's second criterion, which he calls the "calculus of meaning," refers to respect for the values of individuals in the developing world.

I also empirically evaluate a common variation on the two cheers for capitalism view. This view suggests that even if capitalism is good for development, "excessive" or "uncontrolled" capitalism isn't. Beyond some point, more capitalism is counterproductive. Laissez faire isn't conducive to development because maximal capitalism is past the optimum. A well-regulated marked economy with healthy doses of intervention to restrain its excesses is conducive to maximal development. Only a dogmatic free-market ideologue would argue otherwise.

Although it has a different purpose in mind, my approach is similar to Andrei Shleifer's (2009) in his recent paper, "The Age of Milton Friedman." Shleifer was interested in documenting how the world's embrace of free-market policies over the last 25 years has affected global development. I'm interested in documenting how countries that became more capitalist over this period fared compared to countries that became less capitalist in terms of their development.

My finding is straightforward: the two cheers for capitalism view is wrong. Although many relationships in the social sciences are unclear, capitalism's relationship to development isn't one of them. Unless one is ashamed of unprecedented increases in income, rising life expectancy, greater education, and more political freedom, there's no reason to be a milquetoast defender of capitalism. That is what sprawling free markets have meant for countries that became more capitalist over the last quarter century. There's no evidence that countries that eschewed the global trend toward freer markets and embraced substantially greater state control performed better on any of these indicators. On the contrary, they performed demonstrably worse. I also find that the two cheers for capitalism variant that desires markets, but "within reason," is wrong. There's no evidence for a Lorenz curve-type relationship between capitalism and development. Development is monotonically increasing in capitalism. Maximal capitalism begets maximal development.

It doesn't make one "dogmatic" to acknowledge these facts. It makes one dogmatic to refuse to acknowledge them. They are facts. There are precious few overwhelmingly clear relationships in the social sciences. We should embrace this one rather than running away from it. The data clearly support capitalism's superiority for development and merit its unqualified defense by social scientists who believe that wealth is better than poverty, life is better than death, and liberty is better than oppression. Full-force cheerleading for capitalism is well deserved and three cheers are in order instead of two.

Data and Empirical Approach

This paper doesn't explore the theoretical underpinnings of the empirical relationships it documents. Its purpose is purely empirical. Those underpinnings have been discussed by political economists going back centuries. The interested reader should consult Adam Smith's (1776) *Wealth of Nations*, F.A. Hayek's (1920) "Use of Knowledge in Society," and Ludwig von Mises' (1949) *Human Action*. The lazy reader may consult Peter Leeson's (2008) summary of these arguments and their connections in "Escaping Poverty: Foreign Aid, Private Property, and Economic Development."

I was at a conference a few years ago in which, following a spirited discussion about the merits of capitalism for development, one of the participants, fearing the praise for capitalism was growing unduly strong on one side of the room, noted that "The jury is still out on how capitalism has affected development globally. Capitalism has brought some benefits for certain countries; but we can't make blanket statements about capitalism's 'goodness' for development. We simply don't have the evidence we need to make a judgment on this question. What little evidence we do have is less than clear." She made this comment to her colleagues' approving nods. I've subsequently heard others make similar claims. This is classic "two cheers for capitalism" thinking.

Contrary to this participants' claim, the jury isn't still out on how capitalism has affected development globally. We have plenty of evidence. And it overwhelmingly points in one direction: the growth of capitalism has made the world better off. The relationships I look at below aren't the only ones one might want to consider. Certainly others could be examined. I encourage the reader to do so if she's curious. In a moment I'll present the evidence on the growth of capitalism and then on income. Income is highly and positively correlated with nearly every positive development indicator one can think of (for example, access to a clean water source), and highly and negatively correlated with nearly every negative development indicator one can think of (for example, infant mortality). There are exceptions. But this strong tendency militates against depicting many of these relationships. Once the relationship between capitalism and income is established, for most purposes, it becomes redundant to examine the relationship between capitalism and improved access to a clean water source, infant mortality, and so on. If the reader wishes to verify this for herself, she's encouraged to plot the data and see.

I consider the trajectory of capitalism and four "core" development indicators in countries that have embraced and rejected capitalism over the past quarter century. These categories are average income, life expectancy, years of schooling, and democracy. I selected these indicators for two reasons. First, they are "big" and basic ones that capture the main categories of development that most people are concerned with: wealth, health, education, and political freedom. Second, these categories comport with those I imagine Berger had in mind when he identified the development criteria he laid out in *Pyramids of Sacrifice*. These were, recall, the avoidance of human suffering (hence, the wealth and health indicators) and respect for the self-determination of the indigenous population (hence the education and democracy indicators). My indicators are imperfect proxies of these categories. Arguably, all of them are relevant to both categories. If the reader has other categories in mind that she believes would better capture what Berger had in mind and would better evaluate the number of cheers that capitalism deserves, she's encouraged to collect the relevant data, depict the relationship, and report the results to us.

My data are drawn from several sources. The first is the Fraser Institute's Economic Freedom of the World Project (2008), which provides data on the extent of capitalism across countries and over time. Fraser measures countries' economic freedom every 5 years and assigns points to countries on the basis of five equally weighted categories related to government's size and activeness in the economy. Together these categories create a composite measure of capitalism, or "economic freedom," that ranges from zero (completely unfree) to ten (completely free).

The five categories this index includes are: 1) *Size of government*, which considers the share of government's expenditures, level of taxes, and the degree of state ownership in an economy. 2) *Legal structure and security of property rights*, which measures the quality and effectiveness of a country's legal system, such as how independent its judiciary is, the impartiality of courts, military interference with the legal system, and how well government protects private property rights. 3) *Access to sound money*, which measures the extent of inflation, and freedom to own foreign currency domestically and abroad. 4) *Freedom to trade internationally*, which measures the extent of tariff and non-tariff trade barriers, international capital market controls, exchange rate regulation or other regulation on the ability to trade internationally. And 5) *Credit, labor, and business regulation*, which covers government control of credit markets, minimum wages, price controls, time to start a new business, the number of licenses, permits and other bureaucratic approvals involved with starting and operating a business, and restrictions on hiring and firing workers.

I get data for my development indicators from Shleifer (2009), who collects his information from several standard sources. His data on countries' GDP per capita and life expectancies are from the World Bank's *World Development Indicators* (2006). His data on education and democracy are from the Barro-Lee (2000) dataset and the Polity IV Database (2000) respectively.

A Funny Thing Called Evidence

Over the past quarter century there's been a clear trend in the world's political-economic organization: the globe has moved toward more capitalism and less reliance on government management of the economy. The growth of capitalism globally is remarkable in both its consistency and magnitude. Figure 1 depicts this growth by plotting the average level of economic freedom in the world over the last 25 years at 5-year intervals.

Contrary to the "two cheers for capitalism" view, flourishing capitalism has unequivocally led to flourishing development. Figure 2a illustrates the movement of income over the same period. It depicts average GDP per capita PPP (in constant 2000 international $) at 5-year intervals in countries that became more capitalist over the last quarter century. To determine which countries became more capitalist over this period, I simply subtracted countries' economic freedom scores in 2005 from their scores in 1980. When scores weren't available for 1980, I used the next closest year to calculate their change. The resulting subsample includes all countries that had a positive economic freedom change.

The data are clear: countries that became more capitalist became much wealthier. The average country that became more capitalist over the last 25 years saw its GDP per capita (PPP) rise from about $7600 to nearly $11,800—a 43% increase. If rapidly rising wealth deserves cheering, so does capitalism.

What about longevity? All the money in the world doesn't mean anything if you're not alive to spend it on things that improve your life. Figure 2b charts the movement of average life expectancy at birth in countries that became more

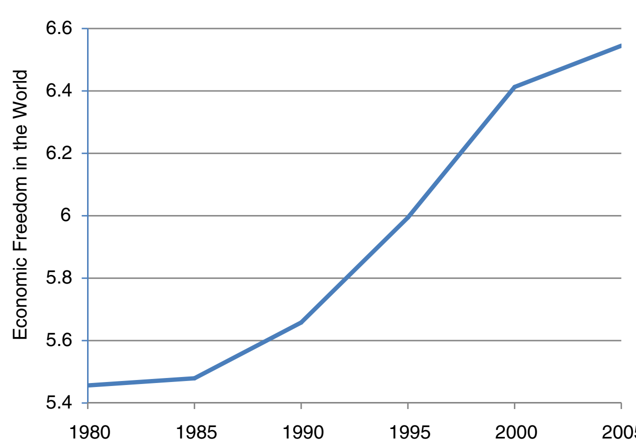

Fig. 1 The growth of capitalism globally

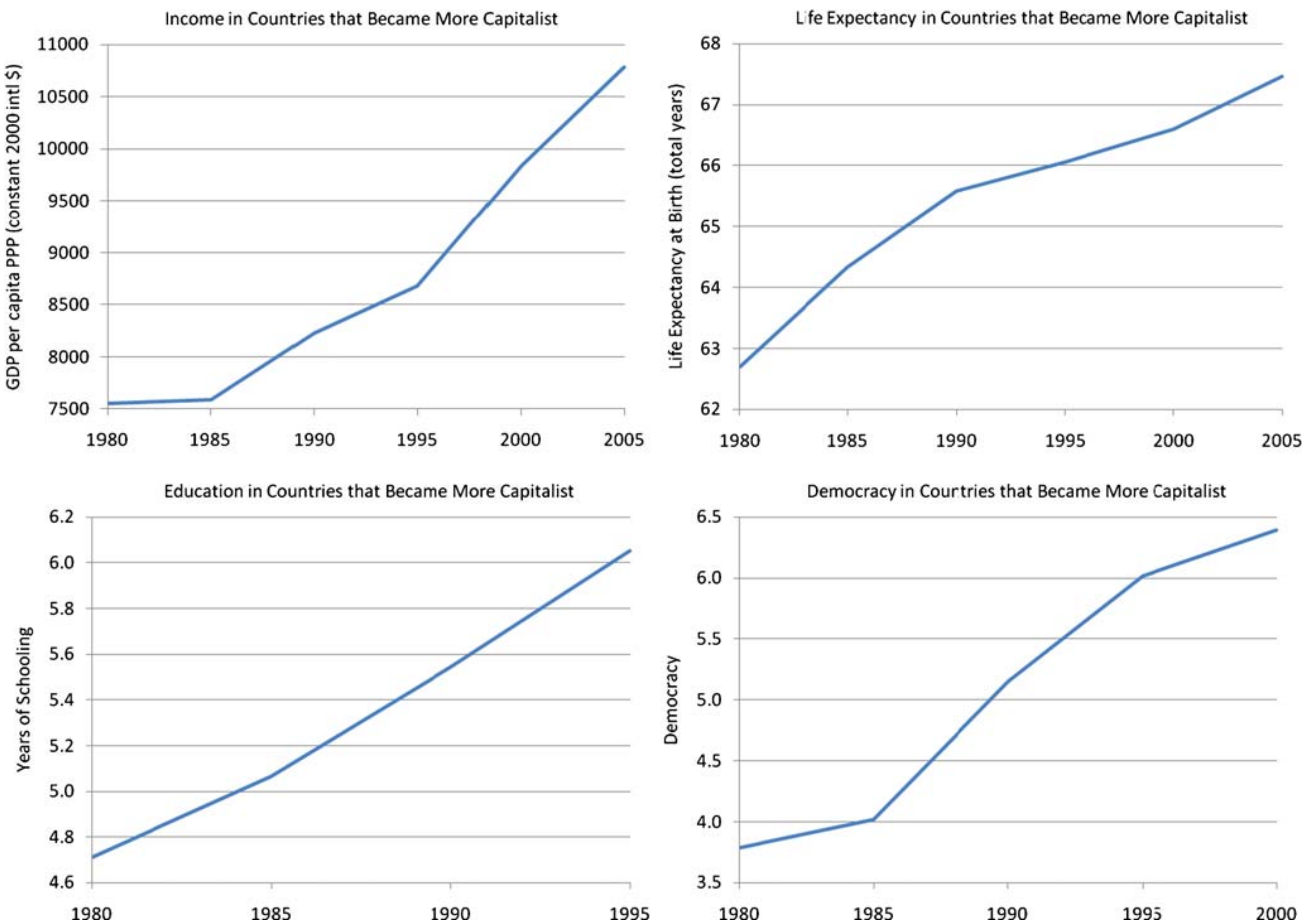

Fig. 2 **a** Income in countries that became more capitalist. **b** Life expectancy in countries that became more capitalist. **c** Education in countries that became more capitalist. **d** Democracy in countries that became more capitalist

capitalist over the last quarter century at 5-year intervals. Growing capitalism is clearly associated with growing life expectancy. In the average country that became more capitalist over the last 25 years, the average citizen gained nearly half a decade in life expectancy. If longer life for the average person deserves cheering, so does capitalism.

Man doesn't live by bread alone. Education not only allows him to live the "life of the mind," but also to build his human capital. Both of these things give individuals more power to shape their identity and their destiny—to live life as they see fit. How has the spread of capitalism world-wide affected education? Figure 2c illustrates this relationship by plotting average years of schooling in the total population (citizens age 25 and over) in countries that became more capitalist for the years 1980 through 1995 at 5-year intervals. (Data were unavailable for the years 2000 and 2005). In the average country that became more capitalist, the average number of years of schooling in the population rose from 4.7 to just over 6. If more education for the average citizen deserves cheering, so does capitalism.

Economic freedom and the economic benefits it brings are one thing. But what about political freedom? How has democracy fared in countries that have become more capitalist over the last quarter century? Consider Fig. 2d, which illustrates the growth of democracy in countries that became more capitalist over the last 20 years at 5-year intervals between 1980 and 2000. (Data were unavailable for 2005). The discerning reader will have now detected a pattern: the growth of capitalism has unequivocally led to improved development in countries that became more capitalist. Political freedom is no exception. Countries that became more capitalist over the last 20 years became dramatically more democratic. On a 0–10 scale, where 10 represents "total democracy" or "complete political freedom," the average country that became more capitalist rose from a democracy level of 3.8 to 6.4—a 68% increase. If growing political freedom and democracy deserves cheering, so does capitalism.

There are no ambiguities about what capitalism has meant for development. If, like most people, you consider large increases in wealth, health, education, and freedom a good thing, capitalism deserves three loud cheers.

No Cheers for Backsliders

Although most countries became more capitalist over the past quarter century, not every country did. Many of the "backsliders" already enjoyed very high levels of economic freedom and backslid only minimally. For example, between 1980 and 2005 the United States became less capitalist by 0.09 points on Fraser's index. But it remained the 7th-most capitalist country in the world. Such countries have significant "surplus funds" built up through decades of capitalism. These funds allow them to consume part of their surplus in the form of increased government intervention with little negative effect on their developmental growth.

Things are very different for countries that have very low levels of economic freedom and became significantly less capitalist over the past 25 years. These countries have no "surplus fund" to consume and became considerably, not minimally, less capitalist. For them, becoming less capitalist has meant foregoing the benefits of developmental growth that countries that became more capitalist have enjoyed.

The evidence that becoming significantly less capitalist results in stalled and reversing development is as obvious to anyone who bothers to look at it as the evidence that growing capitalism has dramatically improved global development. There's no reason to pretend we don't know what becoming significantly more socialist means for development. We do know: the results are as sad for growing socialism as the results are happy for spreading capitalism.

Fortunately, only five countries became significantly less capitalist over the last quarter century when most everyone else was busy reaping the rewards of becoming more capitalist. These countries are: Myanmar, Rwanda, Ukraine, Venezuela, and Zimbabwe. Each of these countries lost more than 1 point of economic freedom over the period on Fraser's 10-point scale. This decline translates into a 20–40% loss of economic freedom depending on the country one considers.

Figure 3a–d depicts the movement of the same development indicators, at the same 5-year intervals, for these countries that Fig. 2a–d depicted for the countries that became more capitalist over this period. I've depicted the data using the same vertical-axis scales as I did in Fig. 2a–d so you can get a sense of the very different trajectory of development in countries that became significantly less capitalist over the past 25 years *and* the very different

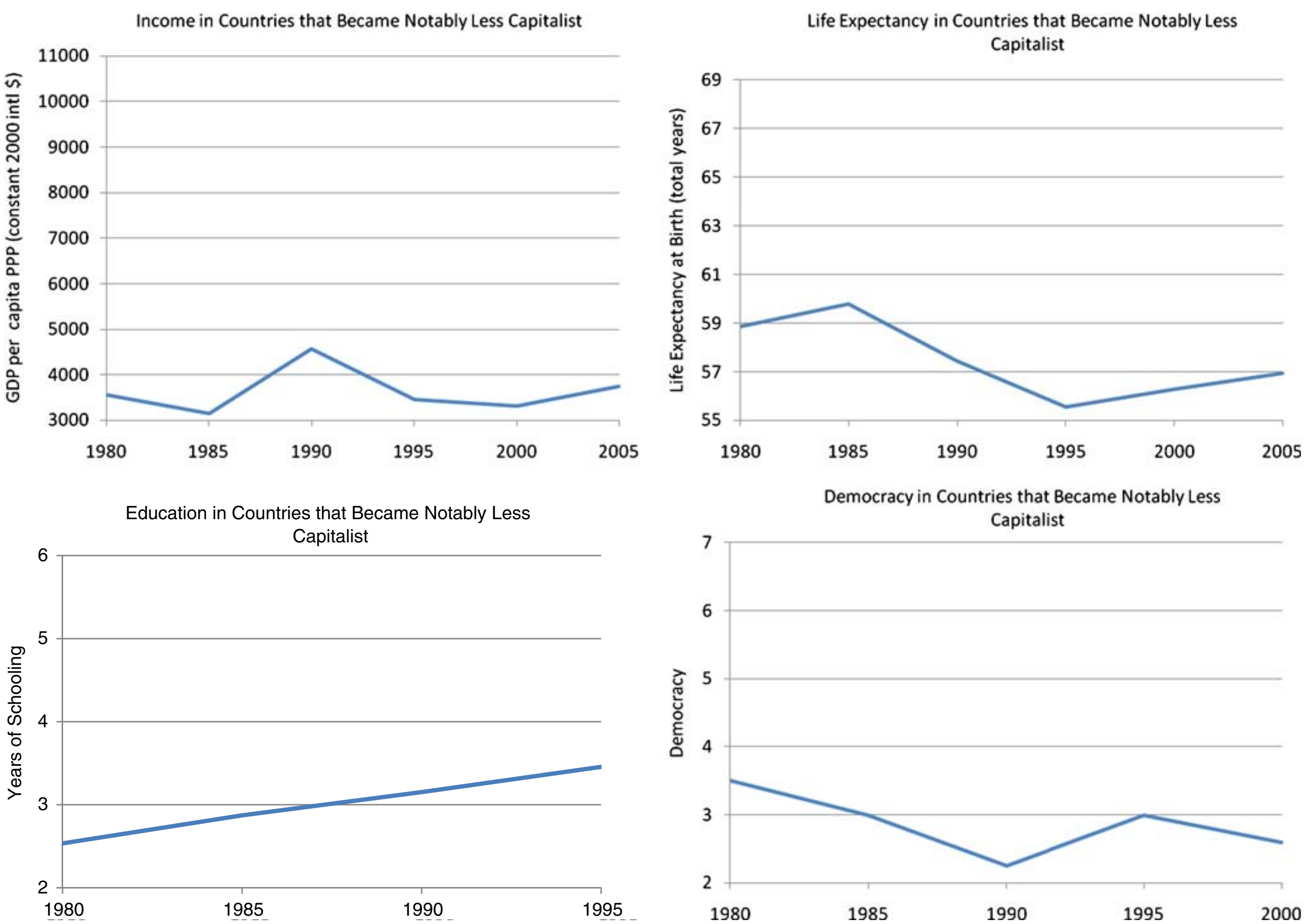

Fig. 3 **a** Income in countries that became notably less capitalist. **b** Life expectancy in countries that became notably less capitalist. **c** Education in countries that became notably less capitalist. **d** Democracy in countries that became notably less capitalist

magnitudes of development between countries that became more capitalist and countries that became significantly less capitalist. See Fig. 3 for the data.

The average country that became significantly less capitalist over the past quarter century has seen its citizens' average income stagnate, life expectancy shorten, and democracy plunge. Only education has managed to improve. Two items must be observed here. First, the number of years of schooling in the average country that became less capitalist over the past 25 years is about 50–60% of what it is in the average country that became more capitalist over this period. Second, the increase in the number of years of schooling in the average country that became more capitalist over the past 25 years is about 40% larger than it is in the average country that became less capitalist over this period. Countries that became more capitalist improved more on education than countries that became less capitalist.

The takeaway from Fig. 3a–d is straightforward. Unless one prefers poverty, premature death, ignorance, and political oppression to wealth, longevity, knowledge, and freedom, less capitalism deserve no cheers.

There is No Lorenz Curve for Capitalism and Development

A cousin of the classic two cheers for capitalism view goes something like this: "Capitalism is necessary, but within some bounds. If economic freedom becomes excessive, capitalism becomes a liability to development instead of a potential contributor to progress." This is fun to claim and makes social scientists' job appear complex. Its major shortcoming is that the data completely contradict it and support an "extreme" three cheers for capitalism: the more capitalist a country is, the better its development is. The less capitalist it is, the worse its development is.

This variety of the two cheers perspective posits something like a Lorenz curve for capitalism and development. On the vertical axis is development. On the horizontal axis is economic freedom. Up to some unspecified point, development is increasing in capitalism. Past that point, more capitalism lowers economic development. Markets are potentially good if they're tamed with healthy dollops of socialism to prevent their alleged downside from growing in disproportion to their limited upside.

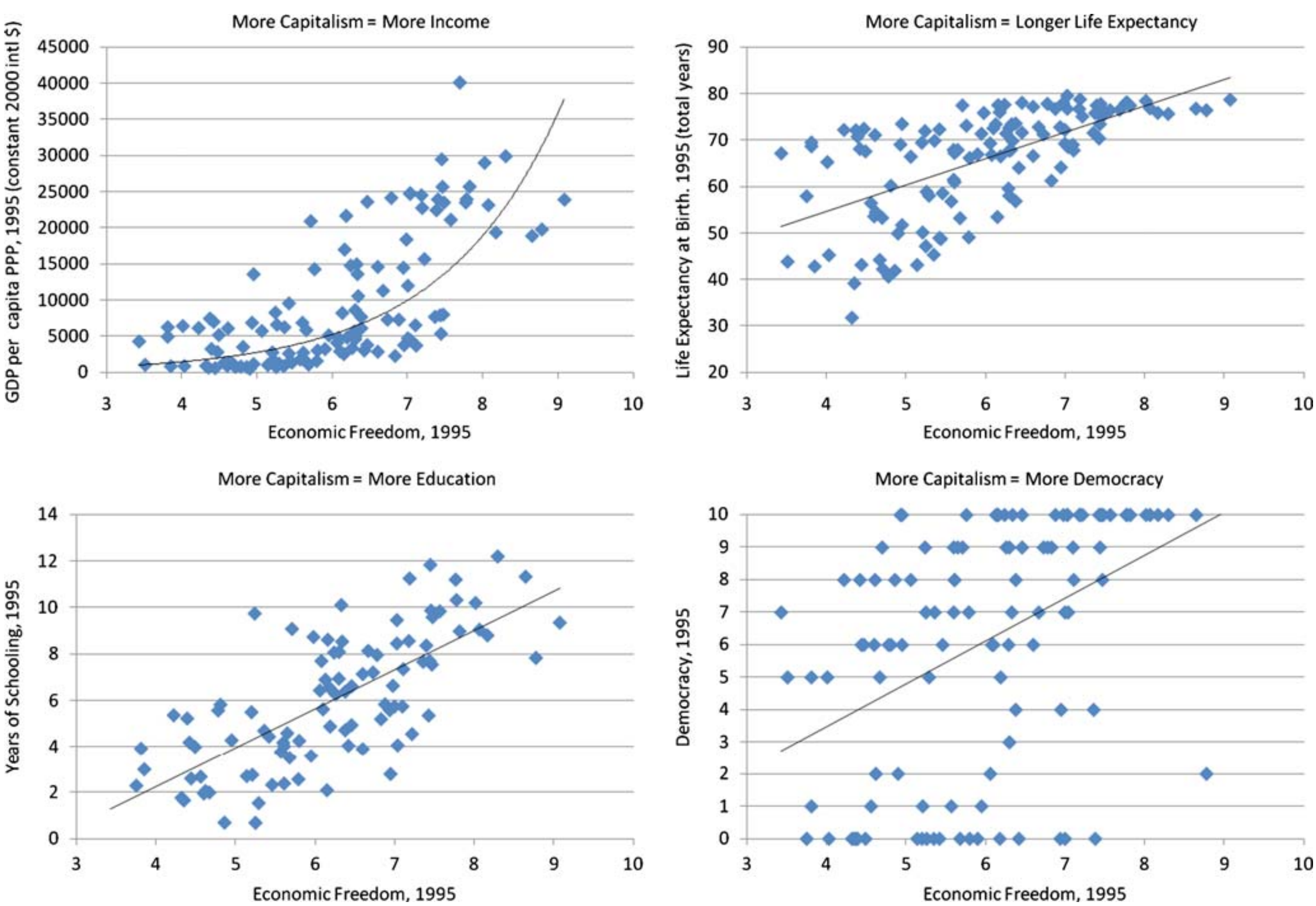

Fig. 4 **a** More capitalism = more income. **b** More capitalism = long life expectancy. **c** More capitalism = more education. **d** More capitalism = more democracy

What do the data say? In Fig. 4 I consider the same four "core" development indicators I consider above. The difference is that now I examine the relationship between capitalism and these indicators in cross section. I use the year 1995 because this is the most recent year for which my data are available that falls within the quarter-century period considered above. Things look similar for other years. The skeptical reader is invited to collect the data and create their own scatter diagrams.

Figure 4a considers the relationship between capitalism and average income. There's no Lorenz-type curve here. The more economically free a country is, the richer it is. The less economically free it is, the poorer it is. The fit is remarkably tight. Contrary to the idea that at very high levels of economic freedom development begins to suffer, the data depict a positive exponential relationship: at increasingly high levels of capitalism, the associated increases in income become larger. Capitalism deserves all three cheers here.

What about the relationship between capitalism and life expectancy? Consider Fig. 4b. The relationship is tight, positive, and monotonic. Citizens in more capitalist countries live longer. Citizens in less capitalist countries die sooner. Three cheers for capitalism are in order again. The two cheers view is unwarranted again.

Figure 4c examines the relationship between capitalism and education. By now, you shouldn't be surprised see that the relationship is tight, positive, and monotonic. There's no evidence for a Lorenz curve relationship. And there's nothing ambiguous about this. The popularity of the two cheers view is remarkable given how obviously wrong it is across the board. Once again, capitalism merits three cheers.

Figure 4d depicts our final relationship of interest: capitalism and democracy. The figure isn't as pretty as Fig. 4a–c because the Polity IV Project's democracy data are discrete. Further, the relationship isn't as tight as the relationship between capitalism and wealth, health, and education. Still, more capitalist countries tend to be more democratic than less democratic countries. Unlike the cases considered above, here there are some notable exceptions. For example, Singapore has a low democracy score but a high economic freedom score. It's located in the lower-right quadrant of Fig. 4d, a lone "free-market autocracy" in the world. On the other side you've got a few countries like Ukraine that score well on the democracy index but have very low economic freedom. These countries are in the upper-left quadrant of Fig. 4d. The overarching relationship depicted in this figure is clearly positive, however. And there's again no evidence at all for a Lorenz curve relationship. On average, as a country becomes more capitalist, it becomes more democratic at all levels of economic freedom. Capitalism deserves three cheers. The two cheers for capitalism view turns out to be nonsense again.

Global Capitalism

When people say things like "It's unclear what effect the spread of capitalism throughout the world has had on humanity" they're wrong. Similarly, when people say that "markets are important; but we should be restrained in our endorsement of capitalism, as it has harmed as well as helped humanity" they're also wrong. Global capitalism's effect is clear to the point of smacking one in the face: it has made the world unequivocally better off.

Claims that "If capitalism becomes excessive, it becomes a social liability instead of an engine for progress" are wrong too. There's no evidence for a Lorenz-type curve that maps capitalism and development. There *is* considerable evidence that capitalism's relationship to development is monotonic. The more capitalist a country becomes, the better it fares in terms of development and vice versa. Capitalism isn't just the "safer bet" for development, as Berger concluded 12 years after writing *Pyramids of Sacrifice*. It's the only bet that makes any sense at all. Capitalism has earned all three of our cheers. It's time that we give them.

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Further Reading

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