

ETHICS AND ECONOMICS

Kapitalismus—Eine Liebeserklärung: Warum die Marktwirtschaft Uns Allen Nützt

Ulrich Chiwitt

Weinheim, Germany: Wiley-VCH Verlag, 2010 (219 pages)

Amid the rising voices that complain of America's slide into the economic mistakes of Europe, there is no doubt that the United States is undergoing one of the longest-drawn-out turnarounds in its economic history. How did Germany (in contrast to most of its neighbors) manage such a startlingly rapid and steady recovery from the global credit crunch while America continued to falter? Even in the face of the debt crisis in the European Monetary Union, Germany continues to outperform other Eurozone economies and only began to slow in the second half of 2011.

Over the past couple of years, we have seen Germany surpass the United States on several fronts. Industrial production has been strong. By midyear 2011, gross domestic product (GDP) growth had fully recovered, wiping out the declines triggered by the downturn. Business sentiment remained robust. Amid inflation fears, German consumer prices were holding steady and measures of the current business climate were reaching new highs. The labor market had recovered more quickly than in the United States. In July, while America continued to struggle with stalled job growth, Germany's unemployment fell for the twenty-fifth consecutive month.

Against this backdrop, a recent book defending the virtues associated with capitalism has appeared, which I anticipated would provide some further insight into the amazing strength of a national economy that is still the world's fourth-largest as measured by nominal GDP. As Germany engages in more wealth redistribution than the United States and is economically less free than most of the industrialized West (exceptions being France

and Italy), one would expect a slower bounce-back than in freer economies following a recession, due to wage rigidity and other dynamics. One factor in the resilience that other countries now envy might be the prominent role of the *Mittelstand*—Germany’s thriving tier of mostly privately owned small and medium-size companies. To such questions, *Kapitalismus—eine Liebeserklärung* provides no clear answers, but it offers some tantalizing clues.

From a book with a big red heart on the cover, fondly subtitled *A Declaration of Love: Why Market Economies Are Good for Us All* (my rendering in English: the book has not yet been translated), I had especially hoped for a discussion along ethical lines. In fact, its author teaches business ethics at several German universities. As well as a former professional tennis player and a managing partner of an apparel business, Chiwitt is an expert on German economic history, if his previous work on Friedrich von Gottl-Ottilienfeld (who was denounced by the Nazis during World War II) is any indication. There is evidence, here and there, of profound insights into the way economies develop and a cross-cultural comparison of systems. These features might have been entertainingly extended with descriptions of economic foibles of the past. Hopefully such elaborations are planned for a future volume. In the meantime, we will have to content ourselves with more in-depth historical studies. (For those who have not read it, Adam Ferguson’s classic about Weimar-era inflation, *When Money Dies*, is back in print.)

Above all, *Kapitalismus—eine Liebeserklärung* is a primer of economics for the layperson—much needed in Germany, where capitalism commonly gets a bad rap—with a passionate, not unpolemical style that reminded me of Hazlitt’s *Economics in One Lesson*. I found Chiwitt’s approach engaging and constructive, as it avoids *ad hominem* arguments—the enemies of capitalism remain, for the most part, unnamed (an exception is a passing reference to Hans Küng, for whom the author apparently has little patience)—but the book does not shy away from a full-on, direct attack on the misconceptions under which capitalism’s detractors commonly operate, and it argues persuasively for further liberalization in the world.

To these ends, Chiwitt churns through thirty-seven theses (popular misconceptions about capitalism), divided into seven categories (capitalism’s definition, living standards and prosperity, justice and equality, freedom and democracy, world peace and the environment, globalization, and humanity) and turns each fallacious proposition on its end.

Think that capitalism tends to create too much inequality, which is unjust? No, inequalities come and go, and that is as it should be, explains Chiwitt. Inequalities increase most notably during times of technological innovation, when inventors and their backers are naturally rewarded, in the form of high incomes, for their achievements and willingness to take risks. This was the case when the railways came into existence, and the invention of motion pictures and the beginning of the Internet era have been no different. In no way is this arrangement unjust, as those innovators are justly rewarded who risk much to bring to market products that everyone wants. Without the rewards, they would never take the risks, and we would all be less well off as a result. Inequality is a prerequisite for the prosperity of all.

Think that the rich need to give a little? That no just society is possible without redistributing the wealth? Chiwitt talks about dividing a pie that keeps changing size: Every interference in the allocation of the pieces has an effect on the size of the overall pie. What may be good for an individual firm or a family may not be good for the pie. Redistribution does not make a society more just; it makes everyone poorer.

In the section on freedom and democracy, Chiwitt highlights the roots of capitalism in the Middle Ages when it was commonly said that “city air makes one free,” an allusion to the law in much of Europe whereby a tenant farmer who had lived in a city for a more than a year could gain his freedom from a tyrannical landlord. Capitalism thrives on freedom and fosters it. Does capitalism endanger democracy? Think again. Capitalism and democracy presuppose and need each other.

Is capitalism responsible for poverty in the Third World? No, it is absurd to blame free markets for the suffering rampant in precisely those nations where the necessary conditions for capitalism (economic freedom, the rule of law, a government that enacts laws in the service of the entire society) are absent. Contrary to popular belief, the wealth of a country depends neither on its natural resources nor on its size or military might but rather on the capital that people carry around with them, their potential, which can be enhanced by democratization, education, and the acquisition of skills and knowledge. Intelligent work is—apart from a proper legal system—the decisive precondition for prosperity, growth, progress, and development. Capitalism is the only way to overcome poverty in the Third World.

As these examples show, the book suffers from a somewhat overly rhetorical style, and references to history are accordingly brief. Chiwitt assumes much knowledge of modern European history and the structure of the economies and politics there on the part of his readership, as this book is intended for a European audience. His examples are therefore short and illustrative, especially when he describes the extremes of economics under which capitalism cannot flourish; for example, as during the Third Reich (when the means of production were under private ownership but what to produce and how to produce it were largely prescribed by the state) and in the former Yugoslavia (an example of the reverse, a market economy with no private ownership).

Chiwitt understands well what it takes for a market system to function properly. Under capitalism, people engage in economic activity by entering markets and freely providing labor, goods, or ideas in return for a freely determined wage or a price as a way of furthering their interests, whatever those interests may be. This forces them to orient themselves toward the needs and desires of others; otherwise, there will be no demand corresponding to what they can supply. Under capitalism, as Chiwitt rightly highlights, the consumer is sovereign. Therefore, do not denigrate a successful capitalist’s self-interest as simple greed: In the markets, one must negotiate with others and through others to the benefit of the end-consumer. Capitalists cannot, over time, remain successful if consumers—in other words, we all—do not benefit from their actions. In a capitalist society, market participants are successful in proportion to how well they can meet their own needs and desires by meeting the needs and desires of those around them.

Toward the end of *Kapitalismus*, the author briefly discusses the other-directed orientation of the entrepreneur with specific reference to Germany: “We need to produce things that no one else can produce and that are so good and desired that the whole world wants them. That we can do so has been demonstrated by our companies for decades” (174–75, my translation). This rings true, as Germany is, we know, economically more exposed to exports than the United States, and it is increasingly focused on the developing markets.

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Intellectual Property Law: Economic and Social Justice Perspectives

Anne Flanagan and Maria Lilla Montagnani (Editors)

Cheltenham, United Kingdom and Northampton, Massachusetts:

Edward Elgar, 2010 (212 pages)

Edited volumes present a challenge to a reviewer; this one is no different. In this volume of nine chapters (each a distinct paper), the various authors explore the theoretical foundations of intellectual property rights (IPRs) beyond traditional utilitarian and “law and economics” approaches, and expand the scope of intellectual property (IP) law to accommodate “the full range of human values implicit in intellectual production” (xii) and “the regulatory dimension in terms of social goals that can be achieved through their construction (xiii).” This approach to “social justice” (defined in various ways by the authors in their papers) is further elaborated on by the editors, Anne Flanagan and Maria Lilla Montagnani:

Enhancing the regulatory dimension (as well as the normative effects) of IP laws would thus bring right into the policy picture those goals that have been so far kept outside. It would morph IPRs from sources of exclusivity to means for any number of social ends, such as combating disease or providing access to educational content, or to the technology needed to build capacity to address such issues as global warming (xiv).

To meet this goal of melding “economic and social justice perspectives” in chapter 1, Giovanni B. Ramello posits that law and economics theory does not give sufficient weight to the complexity of knowledge production, resulting in a distortion of the meaning of maximizing cultural production. In his article, Ramello considers that a social justice approach can simultaneously produce IP-enhancing distributive effects and realize market efficiency with the precondition being a weaker level of IP protection, resulting in a wider accessibility of knowledge among individuals as a critical feature for creative endeavors.

In chapter 2, Federico Morando addresses the current status of public and private interests concerning society and the Internet, specifically how the World Wide Web 2.0 has altered the economics and status of authorship and challenged the effectiveness and efficiency (“appropriateness”) of current copyright defaults. Morando recommends a