

Civic Free Enterprise

Richard B. Wells

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A note to the reader: This book contains numerous references to previous works by the author. These works are publicly available free of charge from the author's website:

Author's Homepage: www.mrc.uidaho.edu/~rwells

Index to author's technical publications: www.mrc.uidaho.edu/~rwells/techdocs

Also found on this website is an unabridged glossary of technical terms. It is titled *Wells Glossary of Critical Philosophy and Mental Physics*, 5th edition. The URL is

<http://www.mrc.uidaho.edu/~rwells/techdocs/Wells%20Glossary%20of%20Critical%20Philosophy%20and%20Mental%20Physics%205th%20Ed.pdf>

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Preface

This treatise is about **civic** free enterprise in an American Republic. I emphasize the adjective *civic* here because there are two distinct kinds of free enterprise: civic and uncivic. Only civic free enterprise is compatible with the principle the United States was founded upon and which justified the American Revolution; namely, the principle of *liberty with justice for all citizens*. In the pages which follow I explain the difference between civic and uncivic free enterprise. The subject treated here necessarily deals with economics, capitalism, entrepreneurship, and business.

These subjects are ones that are dear to me personally. Entrepreneurial capitalism has been a tradition in my family since before our arrival in America in 1685 [Wells (2016)]. My great grandfather's great grandfather's great-great grandfather emigrated to the colonies from Bradfield, Berkshire, England when he was thirteen years old. He paid for his passage to America aboard the ship *Bristol Merchant* by contracting to become an indentured servant in Whitmarsh Township, Pennsylvania, near Philadelphia. After completing his term of service he became an agribusinessman in Bucks County, PA. His great grandson lost a leg while serving in the Pennsylvania Militia during the American Revolution. His great-great grandson and family became pioneering settlers after the war, developing and then re-selling farms in Ohio, Indiana and Wisconsin until my great grandfather's grandfather founded the city of West Union, Iowa, and settled there. Our later generations were all independent businessmen. I make every effort to remain objective in my presentment of the theory set out in this book, but if I should occasionally stray from this objectivity in comments of personal opinions I make from time to time, I ask the reader to understand that these come from 300+ years of family experience and tradition.

This treatise is about a social-natural science of civic free enterprise and so objectivity is based on real-explanations of the technical terms it uses. The treatise contains a glossary of technical terms and I ask the reader to consult this glossary for the real-explanations of its terminology. The Idea of free enterprise, and therefore of civic free enterprise, is tightly bound to the Idea of capitalism. The history of capitalism has only recently become a topic of special interest for contemporary historians, and competent scholarly works on the topic only go back a little over a decade from the date of this writing. There are not many of these works published yet, and the reader must take care to distinguish between legitimate scholarly works and the many volumes of propaganda – both for and against 'capitalism' – that have been published. Of the legitimate works in print, there is one general flaw I think must be pointed out at the outset of this treatise. The usage of the term 'capitalism' in those accounts is a corrupted usage. Historians generally do not re-interpret terms that are in common and general usage; they typically do not see this as their role as historians. Rather, they use terms as these terms are in general use and not from a Critical starting point necessary to study history as a social-natural science. To set a proper scientific perspective for the work that follows, I think it is prudent and propaedeutic to give a brief synopsis of the term 'capitalism' as it is presently being used. The proper Critical real-explanation (*Realerklärung*) of 'capitalism' is provided in the text of this treatise later.

The term 'capitalism' as it is commonly used today is the offspring of a confounding of ideas that can be traced to three main sources. These are ideas that were set out by: (i) the neo-Kantian sociologist and political economist Max Weber; (ii) the social philosopher and economic historian, political economist, anthropologist, and sociologist Karl Polanyi; and the communist propaganda of Karl Marx and Friedrich Engels presented in *The Communist Manifesto* of 1847 and *Capital* in 1867. I give very little space to the propaganda of Marx and Engels in this treatise; these authors have no valid real explanation for 'capitalism', the Hegelian root of their political philosophy is foundationally flawed, and communist theory utterly lacks real objective validity.

Weber was one of the earliest sociologists to set out a social-natural history of the development of capitalism. His theory, encapsulated in figure P.1, is not without important flaws but it is

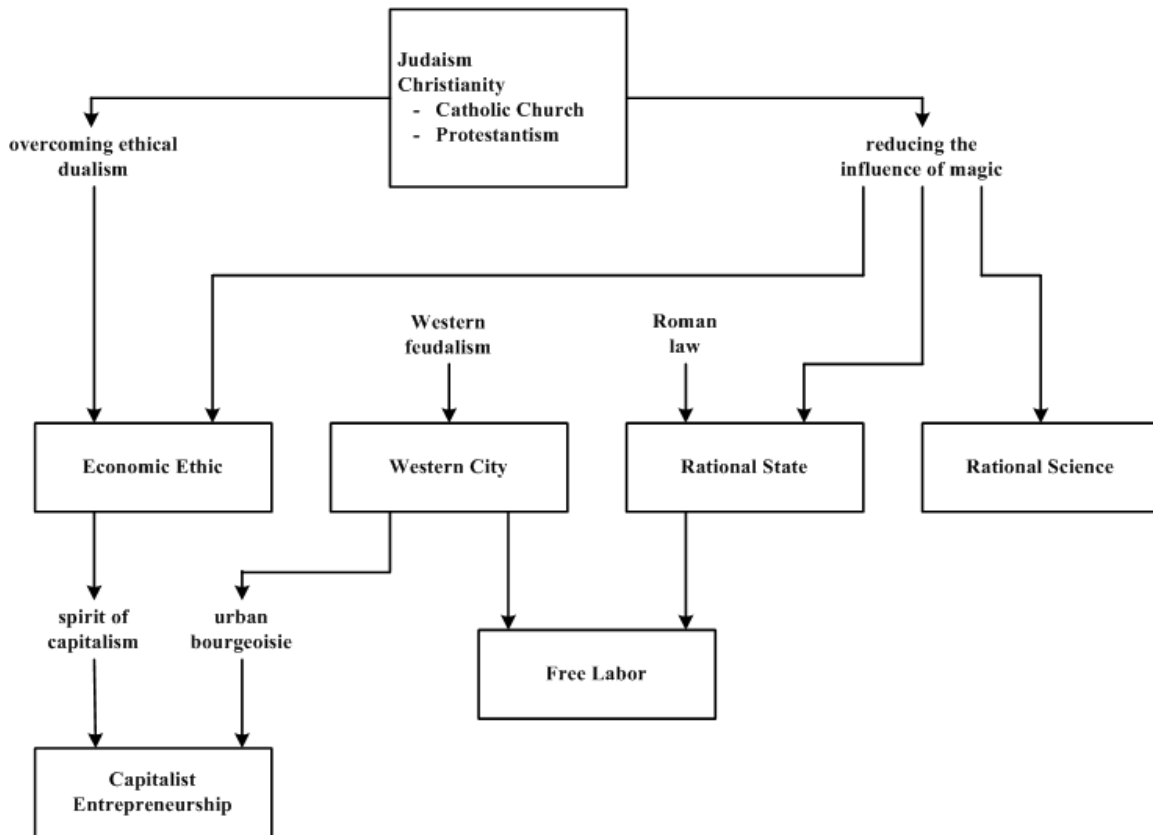


Figure P.1: Illustration of the outline of Weber's theory of the development of capitalism.

an important contributor to how the word 'capitalism' has come to be used and viewed.

Figure P.1 contains subtle but essential clues to what is wrong with contemporary usages of the term 'capitalism.' First, note how Weber's 'rational science' stands independent of capitalist entrepreneurship and free labor. All phenomena of entrepreneurship and labor are the outcomes of human activity, yet Weber's model implicates a separation of a rational science (economics) from fundamental laws of human determination and behavior. This division between phenomena and a science that must seek *causative* explanations has been a contributor to a devolution of the science of economics from originally social-natural foundations considered by Adam Smith to the mathematical and Platonic social science that economics has been reduced to today. This present day social science is incapable of reliably providing extensive causative explanations.

Second, the figure makes a disjunction between 'free labor' and 'capitalist entrepreneurship.' This merely logical (i.e., mathematical) division between these two ideas, and the absence of any immediate connection between them, displays a fundamental error in how the idea of capitalism is viewed today. It implies an opposition between capitalist entrepreneurship and free labor that is planted at the root of controversies between protagonists and antagonists of capitalism. Attitudes in regard to this opposition are, additionally, responsible for the institution of *uncivic* free enterprise in America and elsewhere in the world. I will plainly disclose to you that I am a proponent of *civic* free enterprise and an opponent of *uncivic* free enterprise. The nature of my advocacy of the former and opposition to the latter will, I think, become clear to you in the course of this treatise. The fact that there are *two* kinds of free enterprise is one of the most fundamental points stressed in this treatise. Civic free enterprise is a necessary and essential condition for Order, Progress, and the survival of civil Society. Uncivic free enterprise is a social disease that eventually brings about the fall of Societies that institutionally tolerate it. This is not a statement

of opinion. It is a *theorem* deducible from Critical laws of human nature and the Critical applied metaphysic of the Idea of the Social Contract [Wells (2012)].

Not every wage-laborer is necessarily a capitalist, but it is possible for any wage-laborer to be a capitalist entrepreneur *at the same time* he is being a wage-laborer. This fact is at the basis for a central idea presented in this treatise, namely, the idea of the *Enterprise of enterprises* model of civic free enterprise. Every possible institution of civic free enterprise in a Society begins with this notion.

Current misunderstandings of capitalism are connected with what Polanyi called 'industrial capitalism' [Polanyi (1944)]. He correctly argued that the roots of Western capitalism are planted in earlier practices of mercantilism. Although he did not use the term 'uncivic free enterprise,' it is also clear that mercantilism was likewise at the roots of this institution. Polanyi argued that "mercantilism, with all its tendency toward commercialization, never attacked the safeguards which protected two basic elements of production – labor and land – from becoming elements of commerce." Mercantilism was an economic system established and regulated by government and especially by the British government in the 16th century. At that time the institution of British government still maintained many factors that had been present in England for centuries and, in this sense, it is correct to say that the regulation of mercantilism was more akin to feudalism than it was to capitalism. The simplest model of the evolution of capitalism can be expressed by saying the development proceeded from feudalism to mercantilism to capitalism. Indeed, the most uncivic factor in uncivic free enterprise is its retention of ideas born of feudalism. I call this set of ingrained attitudes and ideas in present day free enterprise by the name 'new feudalism.' This new feudalism was institutionalized by mercantilism.

Polanyi employed the term 'industrial capitalism' and it is this term – with its adjective modifier – that has come to be abbreviated by contemporary usages to the term 'capitalism.' However, as soon as 'industrial' is used as a *modifier* of 'capitalism,' what one has is no longer a definite and general idea of what 'capitalism' is. What one has instead is a description of how some people choose to *employ* their capital. Polanyi used the term 'industrial capitalism' to mean that which is characterized by a factory system of manufacturing plus a complex division of labor generally found in multi-person manufactories. Here he more or less follows Adam Smith's treatise [Smith (1776)] but he leads his readers to confound a *manifestation* of capitalism with Smith's *definition* of 'capital'. He thereby restricts the idea of 'capitalism' to a mere special case.

A real-explanation (*Realerklärung*) of 'capital' cannot be restricted to some one or few special classes of people. Rather, it must embrace every situation in which a person acquires and employs capital. A twelve-year-old paperboy who deposits 25¢ a week in a savings account at a bank fits no one's idea of an 'industrial capitalist' – despite the fact that his occupation as a paperboy *does* constitute 'industry' on his part – but his employment of part of his income revenue to earn interest *does* make him a capitalist. The difference between him and a Warren Buffet or an Andrew Carnegie lies solely in the *amount* of capital employed; he has just as much of the *quality* of being a capitalist entrepreneur as either of these men. If a 12-year-old can do it, so can you.

What I call this "adjective issue" is presented in how many contemporary economists view putative "stages" or "states" of capitalism over time. A more or less comprehensive synopsis of these views includes the following ten "stages" or "states" :

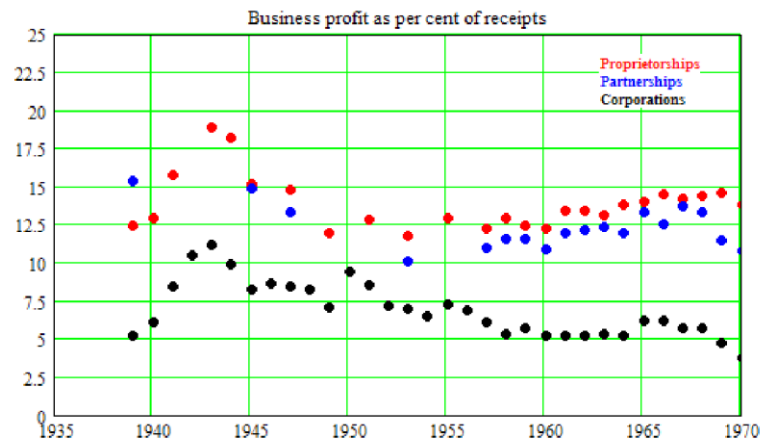
1. Agrarian Capitalism, also called Market Feudalism;
2. Mercantilism;
3. Industrial Capitalism;
4. Monopoly Capitalism;
5. Colonization;
6. Welfare Capitalism;

7. Mass Production;
8. State Capitalism;
9. Corporationism;
10. Financial Capitalism.

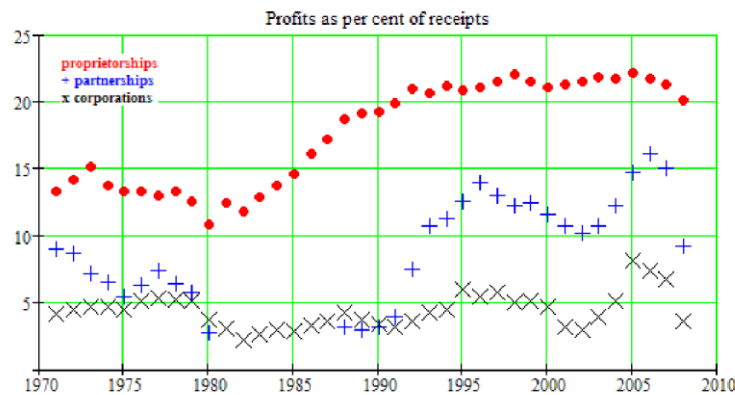
Each of these labels attempts to characterize to some degree manifestations of major institutions for the employment of capital. These labels do not *define* what capitalism is.

To some the issue of what capitalism really is in actuality might seem a small or unimportant matter. After all, has America not been a land of capitalism since colonial times? It has, but one factor has changed over time to become a dominating fact of economic and business life in the U.S. This is the changeover from a dominantly capitalist and proprietorship economy to one in which the great majority of Americans are wage laborers working in industrial conglomerates that are *ruled by managers* rather than *run by capitalists*, and one in which the great preponderance of business revenue in the U.S. flows into corporations managed by 'hired help' non-capitalists.

Figure P.2 shows the ratio of profits to business receipts, calculated from U.S. Census Bureau data, for proprietorships and partnerships (which are operated by capitalists) compared to that of corporations (which are operated by hired managers). The ratio of profits to receipts is a measure of how well capital is being utilized by a business. The figure clearly demonstrates that capitalist proprietors operating businesses consistently outperform hired managers by a wide margin.

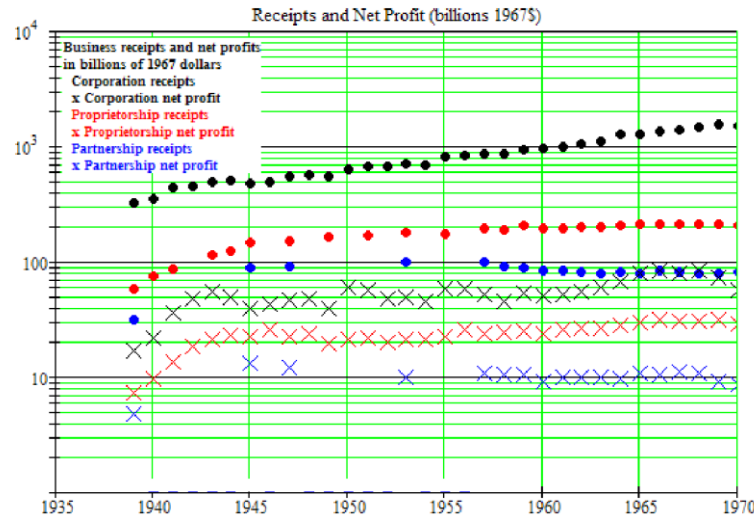


A

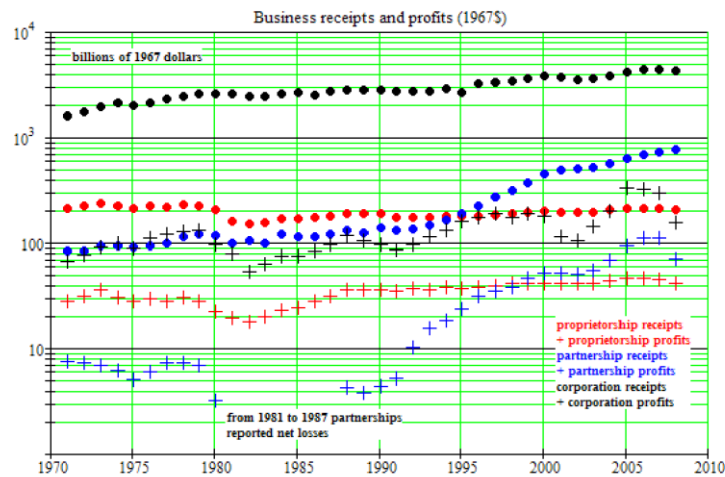


B

Figure P.2: Comparison of the ratio of profits to business receipts for proprietorships, partnerships, and corporations from 1939 to 2008.



A



B

Figure P.3: Business receipts and net profits 1939 to 2008 for U.S. proprietorships, partnerships, and corporations (source: U.S. Census Bureau). Figure data is inflation-adjusted to constant 1967 dollars.

At the same time, the flow of business receipts has changed over time such that business receipts flowing into manager-run corporations has increased relative to proprietorship receipts. The former now exceeds the latter by more than an order of magnitude. Figure P.3 shows this data over the period from 1939 to 2008. What figures 2 and 3 mean is that in the 20th century the capital resources of the U.S. flowed out of local circulations and into business establishments that waste and misuse capital. As this happens, the supply of capital available to individuals, and from which they would be able to build up their own economic welfare, has diminished. It should surprise no one that this is accompanied by a so-called "wealth gap" that is widening in American Society. It is capital investment that builds wealth; when capital flows away from local communities those communities become increasingly arrested economically. Local entrepreneurs are deprived of opportunity to obtain the capital wealth-assets they need to drive and build a progressive and growing national economy. The economic environment in the U.S. has increasingly become non-capitalist under uncivic free enterprise. Indeed, it has become one that

merits being called *economic serfdom*. This is a dominant factor in the U.S. economy and it's an alarming trend. This is why properly understanding what capital and capitalism are is a matter of first-rank concern.

The first order of business in this treatise is to restore the social-natural real meanings of capitalism, entrepreneurship, and free enterprise. To accomplish this, it is also necessary to establish real foundations for economies and lay some groundwork for a social-natural science of economics. From this foundation we can then proceed to discuss economics, markets, the nature of business organizations, and principles for reforming our present system of uncivic free enterprise to rebuild for this country a civic free enterprise system.

Richard B. Wells

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Preface References

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