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Capitalism Two Aspects

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Mr. Ford was elected a vice president of the company on "December 15, 1943, and four months later became executive vice president. In 1945, he became the company's fourth president since its founding in 1903, and served in that post until he was elected chairman of the board on July 14, 1960.

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I. The Virtues of Capitalism

I. THE VIRTUES OF CAPITALISM¹

There has been a great deal of talk in recent years about the nature and merits of capitalism-American capitalism in particular. Much of this discussion, maybe even most of it, has focused on the alleged evils of capitalism-on its past sins and present vices. This negative slant is probably inevitable, and it may even be desirable. No system is perfect, and a people not alert to the defects of capitalism can never hope to improve it. Nevertheless, this afternoon I would like to speak to the question of what's right with capitalism. Sometimes I think we tend to forget there is another side to this debate.

Now I want to make it clear that I am not here today to blindly defend capitalism. We capitalists have our faults, like anyone else, and I would be the last person to claim that we have never made mistakes. But unlike most of our critics, we have a track record to point to. They have theories and dreams and promises-some of which are very appealing-but we capitalists have a long history of real-world accomplishments to look back upon. In my talk I will try to concentrate on those accomplishments.

I will try to do this, but I do not expect that I will entirely succeed. It is my observation that many of the day-today public relations problems facing American business can be traced to the fact that discussions of capitalism tend to be dominated by the language of our critics. In fact, the very word "capitalist," with all its negative undertones, was coined by European socialists in the last

¹ The following text was delivered as a speech at the Stanford University Graduate School of Business on January 17, 1979.

century and given popularity by none other than Karl Marx. Since the industrial revolution, the critics of capitalism have saddled the private sector with a long list of invidious slogans, while appropriating for themselves such noble words as "liberalism," "reform," and "progressive." They have tagged the businessman with abusive labels—"robber baron," for example—and have led many to assume that businessmen are by nature dishonest or even villainous. At the same time, our critics have spoken as if their own movement were made up of virtuous men and women selflessly dedicated to the public interest. Indeed, our critics' constant use of the phrase, "the public interest," is an excellent example of their linguistic cleverness—as if business and businessmen were not constantly serving the public interest themselves.

Our critics have been quite successful in their effort to reshape our political language. As a result, my task today is harder than it might be. Nevertheless, I will try to lean against this linguistic bias, and present you with what I hope is a fair account of capitalism's achievements.

Let me begin by saying what I think capitalism is not. It is not a perfect system, nor is it a utopian system. It is an imperfect system. Unlike anti-capitalist ideologies, it has never promised to bring about paradise on earth, although it has come a lot closer to paradise than any non-capitalist alternative I can think of. I am tempted to say that capitalism is located in the suburbs of paradise—in the Levittown of paradise—whereas socialism aspires to Park Avenue but somehow always ends up in the neighborhood of skid row.

Some of you may not be much impressed by this definition of capitalism. Levittown, you will say, is a distinct come-down from

paradise. But I remind you that to many veterans returning from World War II, Levittown was paradise. It was a ticket out of the world they had known before the War, the world they had experienced during the Great Depression; and it was the concept that enabled them to become property owners. It was also an example of creative capitalism at its best. One need only compare it to the famous Pruitt-Igoe housing project in St. Louis, Missouri. Pruitt-Igoe was built by the state and Federal governments at a cost far exceeding that of Levittown, yet the project was demolished by the city of St. Louis only 20 years after it was opened to the public.

I grant you that the story of Pruitt-Igoe's rise and fall is an extreme one, yet it tells us a great deal about the state's capacity for constructive action, and about the fate that utopian thinking encounters in the real world. Pruitt-Igoe illustrates some of the financial and social implications of state planning. Even more, it stands as an example of what can happen when the public sector attempts to reach beyond its area of competence. Levittown, with all its imperfections, stands to the present day as a prosperous middle-class community, and as a kind of monument to the genius of the private sector.

The critics of capitalism often try to depict capitalist society as a dull, "square," unenlightened sort of place. This description could not be further from the truth, and is another example of the way words can be used to distort reality. Whenever I hear a capitalist described as a "reactionary"—and I suppose I have been called one myself on more than one occasion—I am forced to wonder about the person making the charge. For capitalism may well be the most unreactionary force in the world today. This is not to say that there have never been any reaction-

ary capitalists. There have been many such individuals, and none of them lasted very long in business. They were the merchants who advised my grandfather to get a horse, the people who laughed at Edison, the men who dismissed Alexander Graham Bell.

Capitalism is probably the most innovative and progressive force in the history of the world. Far from being "reactionary," it is, in my opinion, revolutionary—more revolutionary, in fact, than any of the ideologies that call themselves revolutionary. In our own time it has changed for the better the lives of virtually the entire population of this planet. It has been a source of wealth, progress, and liberty. If judged simply by its capacity for creating wealth and distributing it fairly through the population, capitalism ranks as the most significant source of human betterment in history. You perhaps may have heard of one former socialist, Paul Johnson, the editor of *The New Statesman*, who has only recently rejected his old ideas. Johnson now calls capitalism "the greatest single blessing ever bestowed upon humanity. . . ."

The impact of capitalism on science and technology illustrates how progressive capitalism is. In fact, modern technology began at nearly the same moment in history when capitalism first emerged. That happened toward the end of the 18th century, and coincided both with the Declaration of Independence and the publication of Adam Smith's *Wealth of Nations*. Capitalism and technology fueled each other. There could have been no great technological revolution in the 19th century without the inspiration, courage and financial daring of the entrepreneurs who started the Industrial Revolution. In our own time, their successors have given us the automobile, the airplane, the motion picture, radio and television, and countless wonder drugs

that have prolonged and enriched the lives of millions.

Nor has capitalist enterprise promoted technology alone. The capitalist contribution to pure science and disinterested research has been monumental. This can be seen every year when the Nobel Prizes are announced. Most of them go to American scientists, and those scientists are employed either at research laboratories connected with American corporations or at research institutes, foundations, or universities that have been built, inspired, or financed by capitalists' money. The great universities and foundations that have pushed America to the forefront of world science and culture are as much the products of American capitalism as the actual goods and services that capitalist enterprise produces.

The philanthropy of American capitalism is no accident. It is an integral part of the capitalist system, and this country would be a different, and poorer, place without it. Indeed, there would be no Stanford Business School and no Stanford University were it not for the generous philanthropy of Leland Stanford, a capitalist by any definition.

It is worth noting that many of capitalism's harshest critics work and prosper in the universities and other institutions endowed by capitalism. One is tempted to say that there would be no serious anti-capitalist movement in America today were it not for the generosity (and the tolerance) of men like Leland Stanford. I am proud of this tradition of tolerance. It is one of capitalism's most important traits.

Few of capitalism's critics criticize this tradition of tolerance and generosity. But lately a substantial amount of anti-capitalist rhetoric has been devoted to denouncing the technological contributions of capitalism. This criticism, I believe, reflects narrow-mindedness.

Despite the overwhelmingly beneficial impact of capitalist science and technology, our critics today say that technological development has gone too far, too fast. Like the Luddites of 19th century England who went around smashing machines that they saw as symbols of industrialism, today a new group of Luddites has appeared on the scene to assault the inventions of modern technology. These people appear under many banners: some call themselves consumerists, others defend the environment. But in some important respects they are throwbacks to the time when people imagined the earth was flat.

I might add that some of them are not friends of freedom, and would stifle scientific research and thwart progress if they could.

This is not to say that there is no truth in any of their charges. Capitalism is, as I have said, a revolutionary force, and some of its side-effects have led to unintended and unwanted results. I am not here to say that factories have never polluted, that consumer products have never been unsafe. I am thoroughly convinced, however, that the blessings of capitalism and capitalist-inspired technology—even when they have polluted and even when they have not been totally safe—far outweigh any adverse effects they may have caused.

The automobile is a good example of what I'm talking about. We have heard a good deal of criticism lately about the automobile, especially the ones produced in America. We have been told that they are unsafe, that they are ugly, that they are polluting the environment, that they are guzzling too much gas. To some extent these charges are true. But the car, like any piece of technology, is constantly changing and improving. It is as close to the ideal as we know how to make it with present technology. We auto manufac-

turers must submit to the rigors of the marketplace; the cars we make must meet the needs and desires of the public. If we were to produce cars nobody wanted we would soon go out of business. Some of you may have heard of the Edsel. For us that car was an expensive reminder that you can't sell the American people a product they don't want to buy.

The point I wish to make is simple. No car manufacturer claims-no manufacturer should claim-that he is building a perfect car. There are no perfect cars. But what we have done with increasing skill and awareness of changing social needs is give the public a product that conforms to their requirements at a price well within the reach of most people. There are trade-offs involved: traffic hazards and congestion, some degradation of the environment, and a heavy demand upon our fuel resources are examples. But would it be better to go back to the horse and buggy? I think not. Thanks to the capitalist system, I can safely assume that practically everybody in this audience drives a car, and either owns one or will own one. Despite its shortcomings, the car has been a blessing for America and its people-something that state-dominated societies have not been able to match to any appreciable extent.

The automobile has, in a period of less than eighty years, altered the fabric of our nation. It has brought cities and regions closer together, and it has brought people together. It has provided ordinary Americans with greater mobility than any people has ever known before; and it has also given them greater personal autonomy than has ever been known. In recent years it has liberated American women from their homes and enabled them to pursue careers and further their educations. In fact, the automobile may be one

of the principal forces behind women's liberation. Equally important, it has created new forms of wealth, new industries and literally millions of jobs-not only in the automobile industry but in practically every other industry as well. The car is today a necessity; imperfect, yes, but nevertheless an essential element of modern life. This is something that ordinary Americans see far more clearly than the new Luddites who would transform the automobile into a kind of Pruitt-Igoe on wheels if they were given the opportunity to do so.

Anyone who doubts that capitalism is innovative should take a look at the socialist countries of Eastern Europe, or at those democratic countries that have subjugated their markets to the deadening hand of government planning. Many socialist countries, both of the democratic and undemocratic types, are still living off the technological and creative capital they managed to build up during their capitalist pasts. Such everyday American products as automobiles, refrigerators, washing machines and televisions are beyond the grasp of, for example, the average Soviet citizen.

But the critic of capitalism will say, as he has said in the past, that socialism-especially democratic socialism-is less exploitative than capitalism. One of the oldest charges in the anti-capitalist arsenal is that capitalism is built upon the exploitation of the working man. You don't have to wait until Labor Day to hear that kind of talk, it is blowing in the winds of everyday conversation. Many American history textbooks (the kind used in high schools all over the country) tell students that American business was built by "robber barons." This picture of the American businessman as a greedy rogue is not new, but neither are some of the defamations of other groups that were widespread in this country

in an earlier, more prejudiced era. Those attacks on ethnic and racial groups were untrue and unfair, and so is the defamation of the American businessman.

Whatever the personal deficiencies of individual capitalists-and there are good capitalists and bad ones, greedy ones and generous ones-the net impact of their activities has been as good as it has been revolutionary. The industrial revolution was, for many, a wrenching experience; yet it was probably one of the less brutal social revolutions in human history. Even at its worst, the industrial revolution rewarded talent and hard work. Contrary to the mythology of the period, it was not a dehumanizing force, and the American people did not oppose it. The workers employed in the new factories joined the industrial revolution with enthusiasm. They flocked to the factories not only from all over America, but from all over the world. Even the worst factory was better- than the rural poverty and servitude they had experienced before the factory set them free-for that is what it did.

Far from exploiting the working class, modern capitalism enabled the descendants of serfs and tenant farmers to escape from a system of poverty that I am glad to say is beyond the imagination of present-day Americans. As they did so, they gained both financial and political freedom-including the freedom to sell their labor on the open market. To those who fled the semi-feudal societies of Poland, southern Italy, and Russia, that freedom was a kind of liberation, and they voted for it with their feet.

Nevertheless, some people continue to think of the American worker as the exploited member of the working class. The only class in which the great majority of American workers can be placed is the middle class,

and this is mainly due to capitalism. In fact, the American worker today couldn't be more different from the stereotyped image of him conjured up by the critics of capitalism. He lives in his own house if he chooses to; he watches color television; he drives the latest model car; vacations in Europe; sends his kids to the best universities; and even owns stock in the company that employs him. He is not against the system. He is in fact part of the system.

Earlier I mentioned the contributions capitalism has made to science and culture, and the freedom and tolerance that exist in the universities, foundations and research centers endowed by capitalist philanthropy. That tradition of freedom and tolerance (which many have called the liberal tradition) is, perhaps, capitalism's greatest contribution and achievement. Capitalism can be appreciated for the material wealth it produces; but its greatest virtue is that it has contributed so greatly to human freedom. I can imagine capitalism -and capitalism's wealth-without democracy, but I cannot imagine democracy apart from capitalism. Historically, the two have reinforced each other.

Our Founding Fathers, although they wrote before the word "capitalism" had been invented, clearly meant America to be a capitalist society. Jefferson and Hamilton may have differed on many issues, but they shared a common faith in the importance of private property and private enterprise. Without property, they believed, men could not really be free, and their institutions could not be truly representative and responsive to citizens' preferences.

A capitalist society is not a society that looks to the state for guidance; it is a society of free individuals and groups of individuals. That is why the Founding Fathers believed

that the government that governs least governs best, since under such a system society is likely to enjoy a maximum of freedom. Now we have not always lived up to the Jeffersonian principle, but we have come a lot closer than practically any other country I can think of. I would personally like to see less government. That would be good for business and good for liberty. The fact that we are still basically a limited government, although the power of the Federal government has been growing at a dangerous rate in recent years, is due in part to capitalism. Capitalists, and people who believe in capitalism, tend to be skeptical about big government; they tend to resist its growth. Today Americans are coming to have a new appreciation of that skepticism. As the vote on Proposition 13 demonstrated last fall, the vast majority of Americans want to get the government off their backs. They know that it is as likely to be the source of future trouble as the answer to present problems.

I would like to say one more thing about capitalism's contribution to freedom. Capitalism has helped to keep us free by doing what it does better than any system in the world today: generating wealth. Liberty is the product of wealth. There can be little concern for liberty when the bulk of the population is hungry. Freedom is considered a luxury in most parts of the world. In our capitalist culture it is something we take almost for granted. Without capitalism, freedom would probably seem an unaffordable luxury to us, too.

I began this speech by suggesting that I am not an apologist for capitalism. It should now be obvious that I do not believe that capitalism really needs any apology. It should also be clear that I believe capitalism is much more than a series of economic arrangements.

Capitalism, in America, embodies the fundamental values of our country as a whole. We are an enterprising people, and capitalism is as much a part of our culture as freedom is. It is the car we drive, the home we live in, the library we borrow books from, the university we send our children to; it is the marvelous hospital at the Stanford Medical School, the opera company in San Francisco, the new art museum in Washington, DC.; it is also an American worker contributing to the United Way or Salvation Army.

Most businessmen are not very good at explaining why this nation's institutions are good institutions; we have tended to lapse into clichés, and our critics have had a good time making fun of them. Yet it is necessary that capitalists speak out in defense of capitalism nevertheless. We should celebrate its virtues, and we should call for reforms where they are needed. We must, above all else, join in the debate I mentioned at the beginning of this talk. Otherwise our critics' voices will be the only ones the American public hears.

We live in a world where it is as fashionable to dismiss political liberalism as it is to dismiss capitalism. The cause of freedom today is precarious throughout the world. Those who value freedom, therefore, have a duty to speak out. We capitalists are part of the liberal tradition, and that good tradition will not remain healthy and vigorous if our defense of democratic capitalism is not healthy and vigorous as well.

II. Where Capitalism Falls Short

II. WHERE CAPITALISM FALLS SHORT²

Several months ago I gave a lecture at the Stanford Business School in which I talked about the virtues of capitalism, a subject that's close to my heart and that I've tried to dedicate my career to. Those virtues, I suggested, could best be understood by looking at capitalism's track record.

Unlike the main alternatives, I argued, capitalism has a long history of positive accomplishments for the betterment of mankind. It has increased the world's wealth enormously, it has encouraged the arts and sciences, it has sustained liberal values, and it has strengthened democratic institutions. We are a great country today in large part because we have been a capitalist country. Capitalism is our orthodoxy. It is what the Founding Fathers believed in, and it is the basis of our politics today. It is, in short, probably the best means ever devised by man for ordering a free and prosperous society.

At the same time, capitalism is not perfect. Like all man-made systems, it has imperfections. I touched on a few of these in my Stanford speech, and today I want to discuss them in greater detail.

This is not because I think the time has come to give up on capitalism or to turn to some other system, quite the contrary. History, I think, has proved that there are no really satisfactory non-capitalist solutions to modern problems. In fact, it is because capitalism is the only alternative that makes sense for our time that we capitalists should pay attention to the areas where it falls short. If we do not, sooner or later government will step in to deal with our problems for us, and in my experience, government intervention

² The following text was delivered as a speech at the University of Chicago Graduate School of Business Management Conference on April 26, 1979.

usually leads to problems that are worse than the ones it tries to solve.

Some of the imperfections of capitalism are things we can do very little about. They are inherent in the system. I think of them as the dark side of capitalism's virtues. We should know what they are, we may soften their impact, but no one should pretend that they can be eliminated.

The most important of these built-in weaknesses is capitalism's tendency to uproot and overturn things. Contrary to the caricature painted by the critics of capitalism, who constantly portray business as a conservative force, there is nothing staid or stand-pat-ish about capitalism. In fact, capitalism is a revolutionary force, maybe the most revolutionary force of all time. It is based on the revolutionary idea that every individual is endowed with certain natural rights and liberties. And it led directly to the industrial revolution, which reshaped the whole course of human history.

On balance, freedom and industrialism have been a boon to mankind. If, historically, they led to polluting smokestacks and urban slums, they also were responsible for the passing of feudalism, the rise of the middle class, the emergence of liberal values, the possibilities of modern technology, and high living standards.

Yet in one respect we have paid a stiff price for all this. For the capitalist revolution was a revolution. It uprooted countless millions from traditional village and rural life and drew them into the alien environment of the industrial city and the steam-powered factory. In many cases this new world was located in a foreign country, with a different language, different religion, and different customs. And this process is still going on. Last month I visited one of our factories in Ger-

many where over half of the workforce comes from Turkey.

As the industrial immigrants adjusted to the shock of their dislocation, they encountered a second and more permanent shock. In the new world of capitalism, individualism was not just an ideal, it was a reality. There was great freedom, yes, but as a result there was little in the way of tradition and community to nurture the human spirit. The new industrial worker seemed to be just a cog in a great machine, and capitalist society sometimes looked like a network of ruthless exploitation.

This is a weakness of capitalism. With its emphasis on change and the material side of life, capitalism gives short shrift to those resting places of the human spirit associated with ancient traditions and settled customs. Yet these are necessary to mankind. Without them, life can seem empty, citizenship has little meaning, and civilizations are in danger. We lost some subtle but important values when we industrialized-values that are easier to describe with poetry than with prose.

In a way, my grandfather recognized this loss when he built Greenfield Village as a kind of monument to a lost world. The world memorialized in Greenfield Village was a calmer, slower place than ours, where men were governed by the seasons and not by the time clock, and where families were held together by values that many modern people, to their sorrow, no longer respond to.

Few of us today wish to return to pre-industrial society. That is partly because the world before capitalism may have had roots, but it was also a place of poverty, squalor, and disease. It is also because capitalism has a key saving grace; it adapts, it tends to correct its errors and imperfections. If business were the same today as it was in the early

phases of the industrial revolution, we just might decide we'd rather live in the pre-industrial world. But business has changed, and it is no accident that it has.

Capitalism may be revolutionary, but it has always been governed by a force that transcends dogma and that compels capitalists to temper their visions with flexibility. I am referring, of course, to the market. It is the one force no capitalist can long ignore, and in the end it moderated (and humanized) the industrial revolution.

Because of the market, products are better and safer, working conditions are vastly improved, the quality of life is higher. Whereas in the 19th century the muckrakers often had oceans of muck to expose to the public view, today's critics usually have to make do with an occasional teaspoonful of muck. This does not make the teaspoonful any more palatable. What it does indicate is that capitalism has improved greatly since the 19th century, and that it is likely to continue to improve as long as it is given a chance to.

That improvement, of course, does not happen easily or automatically. It is made to happen by individual people who think they have a better idea and who stick with it and make it happen. The market rewards those who meet peoples' needs, and it ruthlessly punishes those who can't or won't keep up. But by itself the market does not bring about progress; individual people do.

This brings me to a second way in which capitalism today falls short. Here I am referring not to the inherent shortcomings of the system, but to the failure of businessmen to respond intelligently to their social and political environment.

In recent decades we businessmen have neglected many genuine problems and turned a blind eye to conditions that should have

caught our attention. Often we have simply been stupid. We have refused to confront some of the crucial issues of our time, and as a result we have played directly into the hands of our critics and helped to make matters worse.

The whole issue of consumerism is a prime example. Business-and I most certainly include the automotive business in that generalization-simply refused to take the consumer movement seriously. Many of us refused to accept the validity of some of the consumerists' most telling criticisms; and that refusal helped to make the consumer movement a force to be reckoned with, and to bring many new and costly governmental regulations. Maybe we wouldn't have won any prizes if we had answered auto-safety charges more effectively before the consumerists moved into the area, but we would have saved ourselves, and our customers, some nightmarish regulations.

And the frustrating part of this story is that in many cases we were there first, before our critics. At Ford we introduced an optional seat-belt system as early as 1956--long before auto safety was a matter of public concern. And we advertised that option extensively. We had trouble selling those seat belts. The public didn't want to spend the extra money on them. And so we stopped trying to push the safety belt.

With the benefit of hindsight, it is my personal conviction that that was a mistake.. In my opinion, we owed it both to ourselves and to the public to work harder at marketing safety belts and other safety features. Had we done so in the decade following 1956 we might have succeeded ultimately in converting the public to the advantages of safer cars; and, at the same time, we might well have avoided many of the regulations with which

we and our customers must presently deal. We also might have avoided being branded as merchants of unsafe products.

Today the great majority of capitalism's problems reflect the failure of businessmen to take politics and new social movements as seriously as they should have. Often, businessmen have refused to respond to what's valid in the critics' cases. Again, with the benefit of hindsight, businessmen should have tried to respond sooner and more positively to broad social demands for pollution controls, which is one area where market forces aren't sufficient and where some government regulation clearly is necessary. In my own industry, we should have responded sooner and more positively to the growing demand for smaller, more fuel-efficient cars. But though we did introduce the sub-compact Falcon in the early 1960's, we didn't really make an all-out effort in the sub-compact field until the 1970's, when we started producing our successful Pinto.

At the same time, many businessmen have also been inept in dealing with those charges and criticisms that aren't valid, and there are many of these. We capitalists were smart enough to make America the richest and most powerful nation the world has ever known, but in responding to our critics we have often preferred bombast to serious public policy analysis. We have responded to the often cogent and articulate arguments of the modern anti-business ideologists with inarticulate grunts. We have often been reduced to debating these individuals with an arsenal of concepts that has been out of date for decades.

Now it goes without saying that this lack of sophistication has often resulted in business being out-foxed by its adversaries. We are not even very good about praising our strengths.

In fact I often wonder if the average American businessman understands what capital-

ism's strengths and virtues are. We have allowed our critics to paint us as villains, and we have stood on the side-lines while they have, in effect, written the rules under which the great debate over the future of capitalism is being conducted. We have even accepted their terminology, which saddles capitalism with such terms as "excess profits," "exploiters," and "polluters," and praises anti-business movements with such terms as "the public interest," "consumerism," and "social justice."

I, for one, happen to believe that the cause of capitalism is the cause of the public interest. Our failure to defend this assertion is certainly a shortcoming that ought to be dealt with.

But our problems run deeper than the newer type of anti-business critic I have mentioned. We also face an older class of adversary, and despite an occasional encouraging development here and there, we are not doing very well with them, either. I am of course thinking of the trade union movement.

I am not anti-union. Unions in this country have done a lot to improve their members' incomes, working conditions, and quality of life. They've also made important contributions to our national political life and to foreign policy. It's hard for me to imagine this country, or any other liberal capitalist democracy, without a vigorous union movement. Outside of major negotiations, business and labor are in agreement much of the time.

But when it comes to negotiations, labor and management don't do as well as they should. In my industry and in many other industries as well, the collective bargaining process is invariably conducted with the threat of a strike hanging over management's head -and all too often it has broken down, resulting in a strike. Strikes are enormously

wasteful. They are of no benefit to shareholders or consumers, and sometimes they are of little or no benefit even to workers. Nevertheless they continue to take place.

Today the average American union member is far from being a member of the working class in the Marxian sense. In fact, in many cases he belongs solidly to the middle class. The militancy that mars labor relations today comes in part from tradition. It is handed down from generation to generation, and a lot of the responsibility for this rests on the shoulders of businessmen. If we businessmen hadn't been so short-sighted in the way we handled labor relations in the 1920's, 1930's, and 1940's, that tradition wouldn't have begun. And if we had communicated better with the workforce and been more innovative in labor relations during the 1950's and 1960's and 1970's, that tradition would be weaker today.

Now I am aware that this adversarial tradition is only one factor in the union militancy of today. There are other causes as well. The changing composition of union membership, the members' rising expectations, and inflation also put pressure on union leaders. Often today, unions are not striking at business; they are striking to hold themselves together.

It is time, I think, to try to change this pattern of adversary labor-management relations that often hurts everybody. I don't pretend that there are any simple solutions just waiting to be applied. Dealing with this problem will take the best minds in the labor, business and academic communities, and it is something we will have to do by ourselves. The last thing we need is another dose of government intervention.

In the 19th century capitalism's greatest shortcomings were its evils : bad working con-

ditions, shoddy products, exploitation. Today, to be sure, evils continue to exist, but they are so infrequent as to make them front page news when they are exposed.

Today one of capitalism's greatest shortcomings is its inability to make a better case for itself; to boast of the high quality of the conditions in its factories, the excellence of its products, the fairness of its pricing, the value of its contribution to social life. Now, ordinarily, a good system, like a good product, shouldn't need much explanation or defense; it should speak for itself. If media hype is necessary, the product probably isn't as good as it should be. I believe that the performance of American business could be improved. But even if it were improved, the system would still need to be sold more intelligently. For our critics are an extremely clever and articulate group who are armed with a vision of society that is essentially 19th century in character, and who aren't at all sure they like capitalism, even at its best. We ought to be able to do better against such people than we have to date.

We have not even made a very strong case within our own companies. Somehow, over the years companies have become so big (or so sloppy) that they've forgotten what made them great. And along with that they've sometimes begun to forget what capitalism is all about, and why it merits the support and the loyalty of their employees.

Capitalism will have to sell itself at home, on the shop floor and in the executive suites, before it can hope to take on its most articulate critics. One of our problems is that we are not by nature communicators, while many of our critics are.

I'm not sure we can ever hope to match the influence of a rock star or leading athlete. By the nature of their work, they can com-

mand a degree of public attention that a mere businessman can never hope to have. That's all the more reason for us to redouble our efforts and hone our arguments, and trust that the quality of our thinking, and the accuracy of our facts, will commend our viewpoint to the American people.

We are not simply capitalists in America today. We are democratic capitalists. Our system of democratic capitalism enabled us to rise up from the turmoil of the industrial revolution to the society we live in today. And our democratic heritage has made our form of capitalism the best system of industrialism in the world today. By that I mean that our democratic heritage has helped us to develop an industrial society that is more humane than any other I can think of.

This is due largely to the market. Not only has it forced American capitalists to obey it in business matters, it has also forced them—sometimes against their will—to obey it in political matters. It has, in effect, required American business to reform itself in ways that have been good both for business and American society as a whole. This process of reform—which is a continuing process—is a point we should never tire of making. It cannot solve all our shortcomings, but it can deal with the vast majority of them.

And here, it seems to me, we confront our critics where they ought to be on their weakest and most antiquated ground; for the market, which has rendered American capitalism more humane and effective, is the very thing which the enemies of capitalism have traditionally distrusted the most. But because of our shortcomings we have not been able to make a very strong case for the market.

I sometimes suspect that many American capitalists actually distrust the market as much as capitalism's enemies do. There are whole

industries today that prefer to escape the market's disciplines. Such businessmen only encourage those who seek reform through the government, who seek greater regulation of business and greater governmental control over the private sector. But solutions like those are alien to our national experience, and American capitalism has a duty to fight them. That we have failed to hold up our end of this fight is clear. But it is not too late for us to mend our ways. We have not gone so far down the road of government intervention that we cannot turn back.

Almost forty years ago, in the shadow of the Great Depression, the Harvard economist Joseph Schumpeter asked what I suppose is the most fundamental question one can ask of any social system. He asked, "Can capitalism survive?" Schumpeter was not the first to ask this question, and he obviously wasn't the last. But his credentials as a conservative, pro-business economist were such that his answer to his own question took on a special significance. His answer, as some of you will recall, was a firm "No."

That, as I have said, was almost forty years ago, and I am inclined to say, in retrospect, that Schumpeter has been proven wrong. I say that I am inclined to say that he was wrong, but I am not totally convinced he was wrong. His pessimism was derived in part from the Depression and in part from the depersonalization he saw taking place in capitalist enterprise. While things have changed greatly since Schumpeter's time, it would be presumptuous, especially in an age that has produced a powerful and articulate new class of anti-business ideologists, to totally dismiss his prediction.

I would rather be on record as saying that I believe he can be proven wrong, and that the task of proving him wrong will be up to

American business. We will have to recognize our imperfections, we will have to defend the market against those who would try to control it. We will, in other words, have to recognize our faults, and as a result we may also learn how to celebrate our strengths.

Businessmen will have to devote more time to those fundamental values that have made our system a system of democratic capitalism. In those values will be found a strength that is far more powerful than either our friends or our critics realize. It is a strength that is predicated on traditions of tolerance, flexibility, and, above all, freedom; it is a strength that is founded on pragmatism, on practicality, on the absence of dogmatism.

Capitalism has survived the bleak predictions of its friends and its foes. It will, I hope, also survive the anti-capitalists who today are trying to bend it to their will. It has survived for one reason: because it worked. It is not perfect, it is not free from sin, but it has worked. I can think of no alternative system that can make such a boast; and that is clearly something that all businessmen can be proud of. We must learn to convey that pride to the American people.