The Word “Capitalism”: The Soviet Union’s Gift to America

Steven G. Marks

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What Henry George wrote in 1879 about the word capital is even more true of capitalism: “Most people understand well enough what capital is until they begin to define it.”¹ Even today, as a recent entry in the *Oxford Encyclopedia of Economic History* states, “no term is so frequently used but so rarely defined as *capitalism*.”² The term is ubiquitous, but unlike similar grand historical concepts—e.g. feudalism or totalitarianism—whose validity historians have disputed, capitalism is assumed, by proponents and opponents alike, to be a given, like the air we breathe.³

Whereas the term “capital” traces to ancient times and “capitalist” came with the financial revolution of the seventeenth and eighteenth centuries, the word “capitalism” is a product of the political conflicts and economic transformations of the nineteenth and twentieth centuries. The French socialist Louis Blanc coined it in 1850, and for the next half century the word was used exclusively by *anti-capitalists*—be they socialists, right-wing Catholics, or anti-Semites—as a term of abuse to demonize what they hated about the modern world.⁴

¹ H. George, *Progress and Poverty* (NY, 1942 [1879]), p. 37.

² R. Hartwell and S. Engerman, “Capitalism,” in *Oxford Encyclopedia of Economic History*, ed. J. Mokyr, I (Oxford, 2003), p. 319.

³ The present article is distilled from the author’s larger study of this issue, currently in progress.

⁴ L. Blanc, *Organisation du travail*, 9th ed. (Paris, 1850), p. 161, 162; the term does not appear in earlier editions. It is worth noting that Adam Smith had written not of capitalism, but of “commercial society,” in which “every man...lives by exchanging,” but without the sense of the all-encompassing socio-economic system we associate with capitalism (*Wealth of Nations*, books I–III, ed. A. Skinner [London, 1999], 126). For the socialists, Catholics, and anti-Semites, see R. Passow, “*Kapitalismus*”: Eine begrifflich-terminologische Studie (Jena, 1927).

S. G. Marks (✉)

Department of History, Clemson University,
Clemson, SC 29634, USA
e-mail: msteven@clemson.edu

Even in those circles, use of the word caught on only slowly. Blanc never uttered it again. Karl Marx only mentioned it a few times late in life.⁵ Prior to that, in 1871 an American interviewer from the *New York Herald* had to explain to him what he meant by it: “capitalism, that is, as you [Marx] would say, monopoly.”⁶ Still in 1880 it was not mentioned in the first published text of the French socialist congress.⁷ But among radicals on all sides of the ideological spectrum it became a set part of the vocabulary of revolt by the fin de siècle.

The term received professorial sanction with the debate over the historical origins of capitalism between German scholars Werner Sombart and Max Weber (whose economic frame of reference was heavily Marxist).⁸ European economists, though, remained skeptical of the term’s validity for a while yet: as late as 1925 there was no entry for “capitalism” in the Palgrave *Dictionary of Political Economy*, and 2 years later the German equivalent, the *Handbuch der Staatswissenschaften*, expressed doubt that it belonged in an academic work.⁹ American economists, too, rejected the term “capitalism” well into the 1920s.¹⁰

⁵ For Marx, see German texts of his writings on the website “Stimmen der proletarischen Revolution,” www.mlwerke.de/me/default.htm, keyword search “Kapitalismus”—bearing in mind that Marx’s authorship of some of the relevant citations is in question.

⁶ J.-J. Hémardinquer, “‘Capitalisme’: mot et idée quarante-huitards?” *Annales: Economies, sociétés, civilisations* (March–April 1967), p. 445–446.

⁷ L. Febvre, “Le Mot capitalisme,” *Annales d’histoire sociale*, II (1940), p. 133.

⁸ A. Hirschman, *The Passions and the Interests* (Princeton, 1977), 4; E. Wright, “Shadow of Exploitation in Weber’s Class Analysis,” in *Max Weber’s Economy and Society*, ed. C. Camic et al. (Stanford, 2005), p. 208ff.

⁹ M.-E. Hilger et al., “Kapital, Kapitalist, Kapitalismus,” in *Geschichtliche Grundbegriffe*, ed. O. Brunner et al., III (Stuttgart, 1982), 442; Passow, *Kapitalismus*, p. 4–5, 8n1.

¹⁰ E.g., R. Bye, *Principles of Economics* (NY, 1928), p. 492.

In the early-twentieth-century United States, “capitalism” was considered a socialist expression. Herbert Hoover was the first president to utter the word in public, and he did so only once, when he delivered a speech praising the “spirit and environment of our people.” He found it unacceptable that “the American system” “by its enemies...has been called capitalism,” because “capital is but an instrument, not a master.”¹¹ But in the periodical press it was appearing more and more frequently. It did so because of the Russian Revolution.

In the nineteenth century the assault on capitalism amounted to little more than volatile rhetoric coming from the far left and far right. But with the victory of Bolshevism in Russia these attacks posed an existential threat that compelled a reexamination of American economic life. Russia became our “dark double,” and we came to understand our nation as its diametrical opposite, as the positive to its negative force.¹² In 1949 the writer and Librarian of Congress Archibald MacLeish lamented this pattern of thought for allowing the mental “conquest of the United States by the Russians.” American political debate, he wrote, “was sung to the Russian tune; left-wing movements attacked right-wing movements not on American issues but on Russian issues, and right-wing movements replied with the same arguments turned round about.” With respect to policy, “whatever the Russians did, we did in reverse.” As we “wandered into the Russian looking-glass” our perceptions of capitalism also took shape in the reflection.¹³

Red Scare and Roaring Twenties

As the press conveyed the earth-shattering events occurring in Russia they adopted the word “capitalism” en route. Nearly every *New York Times* article that mentioned it in the 1920s had to do with the Soviet Union and its rulers Lenin, Trotsky, and Stalin.¹⁴ Simple reporting on the USSR required adoption of the term, and editorializing necessitated defining it.

The definitions varied according to the political orientation of the writers and publications. By 1919, the first Red Scare was in full fury, and conservatives in the US were denouncing Bolshevism as a “menace to Americanism.”¹⁵ Conversely, they put forth a defense of capitalism that

contrasted with communism: “Capitalism is an evil you say? Nevertheless it is an evil that has permitted us to attain a high degree of material prosperity....[And] the process of attaining communism is very much like committing suicide by the nation.”¹⁶ Delighting in *Schadenfreude*, they looked for any sign that the Russians were being forced to make concessions to the iron “logic of capitalism,” as in the NEP, the quasi-market economy Lenin instated in 1921 to quell popular discontent.¹⁷

The liberals writing for the *New Republic* had no enthusiasm for the Soviet experiment, but roundly critiqued the conservative position as well. They were bothered by the blind defense of free markets, “a capitalist utopia” based on a “myth of capitalistic rationality” as “mythical as any socialist utopia.” But free markets didn’t work, the liberals argued, because they could not relieve poverty without some measure of government “economic control.” The *New Republic* rejected the conservatives’ depiction of the “present order as a great democracy of consumers,” when corporations were able to apply “every device known to the psychology of advertising” to beguile buyers and relieve them of their hard-earned money.¹⁸

The arguments voiced in the 1920s would be familiar today. Public discussion of the American economic system has advanced little beyond the ideological battle lines that formed in reaction to the earth-shattering Russian Revolution. Although rooted in the Gilded Age antagonism between defenders and detractors of laissez-faire economics, positions hardened in debate over the inchoate concept of capitalism. They solidified further during the Great Depression, a capitalist calamity that happened to coincide with the staggering “super-industrialization” of the USSR.

“Capitalism Flounders”: The Great Depression

In the midst of the economic expansion and stock market boom of the Roaring ‘20s, Republican presidential candidate Herbert Hoover declared that “we in America today are nearer to the final triumph over poverty than ever before in the history of any land.”¹⁹ An editorial writer for the US Chamber of Commerce magazine *Nation’s Business* gushed, “there is no doubt that the American businessman is the foremost hero of the American public today.”²⁰

¹¹ H. Hoover, in J. Woolley and G. Peters, *American Presidency Project* (henceforth APP). www.presidency.ucsb.edu/ws/?pid=22379

¹² D. Fogelson, *American Mission and the “Evil Empire”* (Cambridge, 2007), p. 6, 62, 228.

¹³ A. MacLeish, “Conquest of America,” *Atlantic* (Aug. 1949), p. 17–18.

¹⁴ Keyword search of *New York Times* online archives.

¹⁵ J. Spring, *Images of American Life* (Albany, 1992), p. 31, 40, 42.

¹⁶ H. Vorst, “Germany and the Danger of Bolshevism,” *Living Age* (July 19, 1919), p. 135.

¹⁷ J. Laughlin, “Logic of Capitalism,” *Yale Review* (Jan. 1924), p. 295–298.

¹⁸ *New Republic* (June 14, 1919), 205–207; (July 23, 1919), p. 372–375; (July 6, 1927), p. 164–165.

¹⁹ *New York Times* (Aug. 26, 1928), sec. 8, p. 3.

²⁰ H. Krooss, *Executive Opinion: What Business Leaders Said* (Garden City, NY, 1970), p. 5.

The reverence vanished like rain in the Dust Bowl with the onset of the Great Depression. The Wall Street crash, the foreclosed farms, the bank failures, the 25% unemployment called into question the leadership of business and the old verities of laissez-faire economics. A nationwide debate ensued over the direction and nature of the economic system. The meaning of capitalism was a central issue, and it was at this point that the word entered regular discourse.

There were a few holdouts: President Franklin D. Roosevelt never once mentioned the word in his public addresses, preferring “our economic system” or, on five occasions, “the capitalistic system.”²¹ Richard Whitney, president of the New York Stock Exchange, told an audience of brokers that “I prefer to avoid the term ‘capitalism’ and the ‘profit system’ as terms which have been badly abused” by the opponents of “freedom of the individual.”²² But he did not offer an alternative, and for nearly all others it was unavoidable—the word with its socialist pedigree was here to stay, but more contentious than ever as left, right, and center tried at a time of crisis to defend their positions through their own definitions of capitalism.

As Americans argued over their country’s response to the catastrophic collapse, Russia was in everyone’s mind as embodying the alternative to the US economy. From the 1930s to the 1990s this pattern was cemented in place by introductory economics textbooks for colleges and high schools. While on occasion they made mention of other economies around the world, they normally featured only two: American capitalism versus Soviet communism—with the addition of Fascist Italy and Nazi Germany while they existed. All of the other varieties of economic activity and systems around the world were given short shrift or ignored altogether while implying the universality of the American and Russian models. Generations of American students saw the world through these lenses as their textbooks highlighted the functioning and superiority of the American system by emphasizing the shortcomings of the Soviet system.²³

Not all of the comparisons were false. Certainly the differences between the American and Soviet systems were stark by any standard. But the reduction of economics to two possibilities was a great failure of imagination that made consideration of practical, non-ideological approaches

to the Great Depression and the problems of capitalism then and later more difficult. Truth be told, many on both sides had a rigid, simplistic, all-or-nothing view of capitalism. As agronomist and FDR advisor Mordecai Ezekiel complained, “the term ‘capitalism’ has become a slippery-smooth symbol of something all conservatives worship and something all radicals question.”²⁴

New Deal brain trusters and their supporters in the press were especially aggravated by the conservatives’ refusal to accept government intervention in the economy on the grounds that it smacked of Stalinism. Liberal commentators noted that conservatives paid no attention to places like Sweden, where “capitalism was controlled,” yet economic and political freedoms were preserved.²⁵ Why? For Thurman W. Arnold, soon to be assistant US Attorney General, it was because the right wing had postulated a “true faith of Capitalism,” and believed that critics of the faith were serving the forces of evil. For the followers of laissez-faire, the “national Devil...is governmental interference,” which will “lead the people astray” and condemn their country to a Hell that looked a lot like communist Russia or Nazi Germany. The crusaders for a pure capitalism repudiated welfare assistance to the poor precisely “because Russia was a country in which government had assumed that obligation,” and it had led “to the destruction of individual initiative...and the downfall of Capitalism.”²⁶

The doom conservatives feared is what communists and other radical opponents of capitalism eagerly awaited. Few were the optimists, who believed it was not worth worrying about communism, for capitalism would pull through. *Collier’s* magazine editorialized that “capitalism as a system is not endangered for the plain reason that no alternative seems more desirable....However well Communism may suit the former subjects of the Russian czar, it has not attracted Westerners.”²⁷ Columbia University economist Edwin R. A. Seligman told an interviewer that “it is the sheerest balderdash to say, merely because times are bad and Russia has a five-year plan, that capitalism is in danger.” Quite the opposite: “Capitalism is in its merest beginnings.”²⁸

As Seligman’s comment suggests, Soviet planning was attracting enormous attention. Even advocates of the market economy had to acknowledge that Russia “with giant strides advances its economic development, while Capitalism flounders and sinks back.”²⁹ The Soviet-inspired “cult of

²¹ F. Roosevelt, APP. www.presidency.ucsb.edu/ws/?pid=88410, and www.presidency.ucsb.edu/ws/?pid=15578

²² R. Whitney, “Economic Freedom,” *Vital Speeches of the Day* (Dec. 31, 1934), p. 214.

²³ E.g., E. Bowers and R. Rowntree, *Economics for Engineers* (NY, 1931), chap. 23; H. Lutz et al., *New Introduction to Economics* (Evanston, 1933), p. 490ff; H. Hill and R. Tugwell, *Our Economic Society and Its Problems* (NY, 1934), chap. 28; W. Spahr, ed., *Economic Principles and Problems*, II (NY, 1940), chaps. 45–46; F. Benham and F. Boddy, *Principles of Economics* (NY, 1947), chap. 2; P. Samuelson, *Economics*, 1st ed. (NY, 1948), chap. 26; *idem* and W. Nordhaus, *Economics*, 13th ed. (NY, 1989), p. 837–844.

²⁴ M. Ezekiel, *Jobs for All through Industrial Expansion* (NY, 1939), p. 278.

²⁵ M. Childs, “Sweden—Where Capitalism Is Controlled,” *Harper’s Magazine* (Nov. 1933), p. 749–758.

²⁶ T. Arnold, *Folklore of Capitalism* (New Haven, 1937), p. 4–5, 8–10, 37.

²⁷ “Don’t Choke the Future,” *Collier’s* (April 30, 1932), p. 54.

²⁸ E. Seligman, “Capitalism Has Just Begun,” *Review of Reviews* (June 1931), p. 61–62.

²⁹ A. Dahlberg, *Jobs, Machines, and Capitalism* (NY, 1932), p. 1.

planning” provoked the envy of technocrats, who envisioned a society where “*the engineer, rather than the business man or the financier is supreme*. This is a stupendous conception and presents a real challenge to capitalism.”³⁰

America in the 1930s heard a cacophony of proposed economic plans. On the far left they intended to *abolish* capitalism; on the center-left they sought to *control* capitalism through industry cartels or a National Economic Board; in the center they stood for *stabilizing* capitalism by means of a managed currency, deficit spending, and public works.³¹

Conservatives critiqued both socialist and New Deal proposals, on the grounds that they would interfere with the laws of nature. “Capitalism,” explained Dorothy Thompson to readers of *Good Housekeeping* and *Ladies’ Home Journal*, “is a natural order of things, based upon man’s nature and upon biological inequalities.” She and numerous fellow conservatives warned that if government tinkered with this system it would lead to dictatorship on the model of Germany, Italy, Japan, and, above all, communist Russia.³²

Liberal publicists, on the other hand, went to great lengths to justify planning in a capitalist society. They made a special effort to rebut the conservative critics of the New Deal who reviled it as an attempt to “Sovietize the country” and undermine the “American system”—statements commonly found in the press releases of the National Association of Manufacturers and the US Chamber of Commerce.³³ The defenders of planning argued that “there is nothing Russian about its origin.” Historian Charles A. Beard insisted that when the Russians adopted planning they were “laying aside Marx [and taking] up Frederick Winslow Taylor,” the factory-efficiency guru.³⁴ Along with Beard, Mordecai Ezekiel maintained that “private capitalism is a man-made system,” in which the state issued the laws, financed infrastructure, and employed civil servants from judges to firemen. It followed that national planning would not therefore deviate greatly from preexisting patterns of American life.³⁵

Parrying the conservative attack, New Dealers mainly denied that there was any similarity between Stalinist and capitalist forms of planning, but some also downplayed the

incongruities to make their programs more palatable to the electorate. For radically different reasons, countercultural thinkers of the 1930s also highlighted the similarities between the Soviet and American economic systems. On this point, the Southern Agrarian writers and back-to-the-land, small-is-beautiful advocates like Ralph Borsodi were in full agreement. Both the US and USSR, in the words of the writer Henry Blue Kline, “negate personality and...reduce critical individuality to the zero deadness of a mass-mind.”³⁶ In their romanticization of rural self-sufficiency and dislike of modern industry they concluded that communism and capitalism had both built, according to Borsodi, “an ugly civilization. It is a civilization of noise, smoke, smells, and crowds—of people content to live amidst the throbbing of its machines; the smoke and smells of its factories; the crowds and discomforts of the cities of which it proudly boasts.”³⁷ Both societies make “genuflections before the altar of mere bigness,” and power and wealth seem “always to gravitate to the few.” People should “cease permitting themselves to be fooled by collectivists of various kinds—industrialists, finance-capitalists, New Dealers, socialists, technocrats, communists, fascists,” and favor instead “small, local enterprises.”³⁸ Whether in the USSR or the USA, economic “insecurity and industrialism are Siamese twins. You can’t have one without having to accept the other. Insecurity is the price we pay for our dependence upon industrialism for the essentials of life.”³⁹

Cold War and “People’s Capitalism”

During World War II, the US-Soviet alliance furthered the idea that the Russian and American economic systems were more similar than different. Opinion polls in the United States registered high levels of sympathy for the Soviets and a new empathetic reading of their economy as a form of “modified” capitalism.⁴⁰

But as the warm feelings toward the Russians gave way to panic in the years that followed, a sharp dichotomizing became the norm. During the Cold War, totalitarianism was the guiding conceptual framework of our foreign policy.⁴¹ As we viewed the world through that prism, the US represented itself as the opposite of everything the Soviet Union stood for. Epitomizing the era, American propagandists developed the socialist-sounding concept of “People’s Capitalism.”

“People’s Capitalism” was the brainchild of Eric Johnston, a moderate Republican who parlayed his earnings as a

³⁰ Respective quotes in P. Blanshard, “Socialist and Capitalist Planning,” *Annals of the American Academy of Political and Social Science* (July 1932), p. 6, and Bowers and Rowntree, *Economics for Engineers*, p. 448.

³¹ Hill and Tugwell, *Our Economic Society*, chap. 29.

³² D. Thompson, *Dorothy Thompson’s Political Guide* (NY, 1938), p. 27–29, 60–63.

³³ Arnold, *Folklore of Capitalism*, p. 10–12, 73; Krooss, *Executive Opinion*, p. 23.

³⁴ C. Beard, “‘Five-Year Plan’ for America,” *Forum* (July 1931), p. 1–4.

³⁵ Ezekiel, *Jobs for All*, p. 271–279.

³⁶ H. Kline in *I’ll Take My Stand* (Baton Rouge, 1977 [1930]), p. 326.

³⁷ R. Borsodi, *This Ugly Civilization* (NY, 1933), p. 1–4, 6.

³⁸ *Idem*, *Prosperity and Security* (NY, 1938), p. 91–92, 300, 313.

³⁹ *Idem*, *Flight from the City* (NY, 1933), p. 144–146.

⁴⁰ J. Diggins, *Up from Communism* (NY, 1975), p. 202.

⁴¹ A. Gleason, *Totalitarianism* (NY, 1995).

vacuum-cleaner salesman in Spokane, Washington into an appliance-distribution empire across the western US and became president of the US Chamber of Commerce.⁴² To counter the Soviet threat, Johnston's instinct kicked in: salesmanship on behalf of capitalism would win over the world.⁴³ Theodore Repplier, executive director of the Advertising Council, agreed with Johnston that "the American enterprise system needs 'reselling'."⁴⁴ A PR organization whose mission was to improve the public image of business, the Ad Council had multiple links with the government. As a consultant to the US Information Agency, Repplier encouraged it to adopt "People's Capitalism" as its propaganda slogan.⁴⁵ "The purpose of US persuasion," he wrote, was "to whack Communism where it hurts": to combat the appeal of Communism in Asia and elsewhere in the world, it is important that we "make clear the fact that a new kind of capitalism has been born—a People's Capitalism which comes closer than any previous society to achieving man's age old goal of the good life for all."⁴⁶

Behind the scenes many power brokers found the term hard to swallow. Bruce Barton, the advertising executive and author who had portrayed Jesus as a salesman in *The Man Nobody Knows* (1925), worried that the word "seems to bring up in too many minds the old cartoon of the pompous fat bellied old gentleman with a high silk hat elbowing his way down the street, and muttering to hell with the common people."⁴⁷ President Eisenhower, too, had doubts: "I would have liked to have seen some kind of adjective put between 'people's' and 'capitalism,' something of the order of, if not 'democratic'—something of the order of 'competitive' or something of that kind."⁴⁸

But its defenders insisted. Claude Robinson, the head of the conservative, pro-business Opinion Research Corporation, had conducted preliminary polling on the People's Capitalism concept. He took Barton's point, writing in their correspondence that "there is no doubt but what [sic] the word 'capitalism' has its limitations." However, he added, "we have searched the dictionaries for a better word and do not seem to be able to find one." Most importantly, "the

great advantage of the word 'capitalism' is that it places the issue in the people's minds of a privately owned economy vs. a government directed one"—i.e. the US versus the USSR.⁴⁹ The popular American understanding of the word remains virtually unchanged to this day.

The USIA promoted the concept at international exhibitions, which coincided with a massive effort to convince domestic audiences of the virtues of free enterprise. Overseen by the Ad Council, the US Chamber of Commerce, and the National Association of Manufacturers, the intent, according to a National Cash Register executive, was to "indoctrinate citizens with the capitalist story." Companies supplied hundreds of millions of dollars to enable broadcasting of the corporate-driven message to millions of Americans through factory-employee lectures and discussion seminars, ads in print media, commercials on TV and radio, and pre-prepared talking points mailed to the molders of American opinion: pastors, teachers, and barbers.⁵⁰

The campaign for People's Capitalism contrasted life in the Soviet Union and the United States as sharply as possible. At bottom, the message was simple. Because of capitalism Americans were happy; because of communism Russians were miserable. Americans were content because capitalism offered a cornucopia of consumer goods and electronic conveniences. The conservative *Saturday Evening Post* crowed that foreign visitors to USIA exhibitions observed "the tangible results of our amazing, highly mechanized production system. They have seen some of the 50,000,000 chromium-festooned automobiles which crowd our [millions of] miles of roads and streets....On virtually every once-vacant lot the comrades saw homes going up at the rate of 1,300,000 a year,...and they may have noticed that most of these new homes are equipped with the newest laborsaving gadgets that have made servants rare in the United States....All in all the comrades could find here more bathrooms, TV sets, food freezers, telephones, automatic washing machines, air-conditioning units, and all the other items that go into our good living than exist in all the rest of the world."⁵¹

Given today's political rhetoric, it surprises us to find that the enthusiasts of People's Capitalism also took pride in the American "mixed economy," with its unemployment and retirement benefits and Keynesian "efforts to tame the adversities of the so-called 'business cycle'." In our capitalist society, they bragged, "we live in a welfare state which

⁴² See his obituary in *New York Times* (August 23, 1963), p. 1, 25.

⁴³ E. Johnston, "Three Kinds of Capitalism," *Reader's Digest* (Sept. 1943), p. 124–126; *idem*, *America Unlimited* (Garden City, NY, 1944), chap. 8.

⁴⁴ R. Griffith, "Selling of America: The Advertising Council and American Politics," *Business History Review* (Autumn, 1983), p. 388–412, with quote at p. 392.

⁴⁵ W. Hixson, *Parting the Curtain: Propaganda, Culture, and the Cold War, 1945–1961* (NY, 1998), p. 133.

⁴⁶ T. Repplier, "Persuasion under the Cherry Blossoms," *Saturday Review* (Oct. 1, 1955), p. 45–46.

⁴⁷ B. Barton, letter to C. Robinson (Oct. 15, 1956), folder Roa-Rof (Claude Robinson), box 60, 1924–1961, Bruce Barton Collection, Wisconsin Historical Society.

⁴⁸ D. Eisenhower, APP. www.presidency.ucsb.edu/ws/?pid=10773

⁴⁹ C. Robinson, letter to B. Barton (Nov. 5, 1956), folder Roa-Rof (Claude Robinson), box 60, 1924–1961, Bruce Barton Collection, Wisconsin Historical Society.

⁵⁰ E. Fones-Wolf, *Selling Free Enterprise* (Urbana, 1994), p. 177 and passim.

⁵¹ J. Bird, "There's no Patent on Our 'People's Capitalism'," *Saturday Evening Post* (March 31, 1956), p. 10.

seeks to put a floor below which no one sinks but builds no ceiling to prevent man from rising.”⁵² Nowadays conservatives would denounce all this as socialism, and then, too, a few voices warned against the “smiling mask” of the “Hand-out State” as inflationary and anti-capitalist and potentially totalitarian.⁵³ But most contemporary publications, including conservative ones, kept in concert with the spirit of the USIA and the Eisenhower administration in stressing the virtues of the state-business partnership: they were content to make known how much better our mixed economy was than the Soviet Union’s, which couldn’t even match People’s Capitalism in its own supposed fields of strength, social welfare and labor relations.

The lack of subtlety and materialistic consumerism associated with the People’s Capitalism slogan aroused the ire of the American intelligentsia, among them Harvard economist John Kenneth Galbraith. Our society should not, he argued, set “as its highest goal the production of private consumer goods” over investment for “human development.”⁵⁴ Galbraith’s assessment of the “affluent society” and the “new industrial society” emerging under the auspices of People’s Capitalism was also highly negative on political grounds. The conservative “economic theology” of the free market allowed large corporations to concentrate too much power in their hands—as in the Soviet Union. Because big companies dominate the economy and have eliminated competition in the marketplace, Galbraith felt that the only way to protect the rights of labor and the citizenry was for government to erect a “countervailing power” to serve as a “restraint on private power” and restore the “autonomous self-regulation” of American capitalism.⁵⁵

Traditionalist conservative thinkers were also leery of growing corporate power. As their cardinal philosopher, Russell Kirk, warned, “it is quite conceivable that the gigantic corporation, the gigantic union, and the gigantic state bureaucracy might give us the dreariest form of socialism without using the word”—a “socialist capitalism” whose “unholy alliance” of big-city “finance companies, contractors, and chain store executives” would destroy small family businesses and the distinctiveness of small towns by forcing them to “yield to a standardized mass commercialism,” an “impersonal” and “standardized prosperity.”⁵⁶

⁵² L. Bogart, *Premises for Propaganda* (NY, 1976), p. 90 (first quote); H. Harris, “Real Radicals: U.S. Businessmen,” *Nation’s Business* (July 1953), p. 29, 58 (second quote); “Lodge Tells What Capitalism Really Means,” *U.S. News and World Report* (Sept. 28, 1959), p. 106 (third quote).

⁵³ E.g., E. Klein, *How to Stay Rich: The Story of Democratic American Capitalism* (NY, 1950), p. 11–12, 16, 116.

⁵⁴ J. K. Galbraith, *Affluent Society* (Boston, 1958), p. 275–276, 352.

⁵⁵ *Idem*, *New Industrial State*, 3d ed. (Boston, 1978 [1967]), p. 96–101; *idem*, *American Capitalism* (Boston, 1962 [1952, 1956]), p. 17, 111, 128, 137, 151.

⁵⁶ R. Kirk, “Little Shops and Socialist Capitalism,” *National Review* (Oct. 23, 1962), p. 317.

Aware of the criticism of the People’s Capitalism campaign at home and abroad, an MIT economic historian with close ties to the CIA, Walt W. Rostow, developed a more sophisticated theoretical framework for American capitalism that would substantiate its global triumph.⁵⁷ The outcome was his short book *The Stages of Economic Growth: A Non-Communist Manifesto* (1960)—in the author’s words “a vivid and meaningful set of ideas that would bite and resist Communist alternatives.”⁵⁸ Rostow replaced the Marxist stages of history (feudal, capitalist, communist) with stages correlating to the American model of economic development. Marx had been wrong. Class conflict was not the engine driving mankind forward to a day when private enterprise and private property would no longer exist. The only valid path to economic growth was the one blazed by the capitalist United States through representative democracy, mass consumerism, and social-welfare programs. Societies that aspired to the highest stage of economic achievement, epitomized by the United States, were moving on the right track toward development. Those that came under the sway of Marxist Russia would remain impoverished. Here was the birth of “modernization” theory in American social science, developed in answer to Russian communism, a “capitalist mirror image” of Soviet teleology.⁵⁹

Crisis of the Mixed Economy and the Resurgence of Laissez-Faire

We can empathize with Rostow for believing he had discovered in the United States the alchemical formula for transforming global poverty into prosperity. By the early 1960s economist George Stigler was certain that we had “one foot through the door” of the capitalist “Golden Age.”⁶⁰ On the fiftieth anniversary of the Russian Revolution, *Time* magazine assured its readers that the capitalist economic system was still “the most productive in human history.”⁶¹

The optimism was short-lived, however. In the 1970s our economy seemed to be rusting out. The mixed economy, it appeared, could not keep the machine running at full horsepower. In this climate the conservative, laissez-faire views of capitalism that had been marginal since the 1920s gained currency once again. The libertarian, neo-classical, and neo-liberal schools of economics rocketed to prestige. Whatever their differences, all of them in common assumed the efficiency

⁵⁷ Latham, Adas, Gilman, Haefele, and Belmonte articles in D. Engerman et al., eds., *Staging Growth: Modernization, Development, and the Global Cold War* (Amherst, 2003).

⁵⁸ M. Haefele, “Walt Rostow’s Stages of Economic,” in *ibid.*, p. 85.

⁵⁹ M. Latham, “Introduction,” in *ibid.*, p. 9.

⁶⁰ “Can Capitalism Survive?” *Time* (July 14, 1975), p. 56.

⁶¹ “And 50 Years of Capitalism,” *Time* (Nov. 17, 1967), p. 51.

of private markets and sought the restoration of laissez-faire economic policies. The patriarchs of the movement were Friedrich A. Hayek, Ludwig von Mises, and Frank Knight; the leading light of the younger generation was Milton Friedman.⁶² But judging by the number of books sold, the most popular of all these “radicals for capitalism,” and the only consistent libertarian of the lot, was Ayn Rand.⁶³

Rand was born Alissa Rosenbaum, a Russian Jew, in the tsarist capital of St. Petersburg in 1905. Fiercely opposed to Bolshevism and dreaming of a career in Hollywood, she left the Soviet Union for the United States in 1925. Her libertarianism stemmed directly from her eight-year experience of communism. She glorified the most materialistic and brutally competitive version of American capitalism as the antithesis of Russian communism. “Is man a sovereign individual who owns his own person, his mind, his life, his work and its products—or is he the property of the tribe (the state, the society, the collective) that may dispose of him in any way it pleases...?....In mankind’s history, capitalism is the only system that answers: Yes.” All others, she believed, including democratically elected social-welfare states, lead to totalitarianism.⁶⁴

Rand’s influence, like that of Hayek and the Chicago School of neo-liberal economics, penetrated Washington, DC at the highest level. Federal Reserve chairman Alan Greenspan was a member of Rand’s inner circle and, as he put it, a “convert” to the “philosophy of unfettered market competition.”⁶⁵ President Ronald Reagan had also been a kindred spirit since his days as a red-baiting Californian conservative in the McCarthy era. He spent his entire political career accusing liberals of consciously adopting what he (incorrectly) understood as Lenin’s strategy in the Russian Revolution: implement social-welfare programs to push up inflation and taxes. These would destroy the middle class, crush “individual freedom and liberty,” and yield absolute power to a socialist government.⁶⁶ Grouping the mixed economy with Soviet communism, he declared that “we’re engaged in a struggle between the proponents of big government” and “our free system of democratic capitalism.”⁶⁷

Like Reagan, other conservatives—and, I would argue, most Americans—continued to glimpse capitalism through the shadows cast by the Soviet Union. This generation continued to idealize the American economy as the only alternative to communism, and American capitalism as the

only system to guarantee democracy, freedom, and prosperity. “The force of the argument,” explained economist Kenneth Arrow, “comes from one overwhelming and very ugly fact: the totalitarianism of the Soviet Union.”⁶⁸ In other words, in the 1970s and 1980s conceptions of capitalism in the United States derived from the same simplistic dichotomy between America and Russia, the same fixation with Communism that had been present since the early twentieth century.

These perspectives were not limited to conservatives. The pristine market economy imagined by Reagan Republicans was not far removed from what most Democrats had in mind. Although Republicans continued to assail Democrats during elections as “central planners” and socialists,⁶⁹ by the 1990s it had become the norm for Democrats to call for tax reductions for the rich, financial deregulation, welfare reform, and free trade. During the Clinton administration—which was responsible for NAFTA, after all—the mantra in foreign and domestic policy was promoting “the market,” “market capitalism” or “democratic capitalism”—phrases that appeared repeatedly in the speeches of the president and his cabinet.⁷⁰ This enthusiasm reflected, at least in part, Americans’ response to the fate of the Soviet Union.

Capitalism Triumphant

For Democrats and Republicans alike, the astonishing fall of communism sanctioned the new consensus on market economics with its distinctly neo-liberal flavor of capitalism. Social philosopher Francis Fukuyama proclaimed it the “end of history.” His best-selling book of that title boiled down to one rousing thought: capitalism’s “ultimate victory as the world’s only viable economic system” went hand in hand with the “victory of liberal democracy in the political sphere.”⁷¹

For many Americans the collapse of Russian communism confirmed the infallibility of capitalism. As President George H. W. Bush declared, “socialism’s attempt to create the new Soviet man simply didn’t work, because human nature cannot be destroyed and created anew.” Capitalism, by contrast, “build[s] upon the strengths of human nature.”⁷²

That much may be true, but American triumphalism also gave rise to endorsements of a raw capitalism that marked a

⁶² P. Mirowski and D. Plehwe, eds., *Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, Mass., 2009).

⁶³ J. Burns, *Goddess of the Market: Ayn Rand and the American Right* (Oxford, 2009), p. 195 and passim.

⁶⁴ A. Rand, *Capitalism: The Unknown Ideal* (NY, 1966), p. 10.

⁶⁵ A. Greenspan, *Age of Turbulence* (NY, 2007), p. 52.

⁶⁶ A. Kiewe and D. Houck, *Shining City on a Hill: Ronald Reagan’s Economic Rhetoric, 1951–1989* (NY, 1991), p. 16–21, 26, 108.

⁶⁷ R. Reagan, APP. www.presidency.ucsb.edu/ws/?pid=41325

⁶⁸ K. Arrow contribution to “Capitalism, Socialism, Democracy: A Symposium,” *Commentary* (April 1978), p. 30–31.

⁶⁹ E.g. M. Forbes, “Three Cheers for Capitalism,” *Forbes* (Oct. 25, 1993), p. 244, 246.

⁷⁰ W. Clinton, APP. www.presidency.ucsb.edu/ws/?pid=46854; www.presidency.ucsb.edu/ws/?pid=52906; www.presidency.ucsb.edu/ws/?pid=48896; www.presidency.ucsb.edu/ws/?pid=48591

⁷¹ F. Fukuyama, *End of History and the Last Man* (NY, 1992), p. 92–93.

⁷² G.H.W. Bush, APP. www.presidency.ucsb.edu/ws/?pid=19852

significant change of heart from the mixed-economy era. The change occurred because of the shifting image of capitalism in relation to Russia. In 1961, the chairman of the board of Inland Steel Company, Clarence B. Randall, a Republican, had warned that if businessmen wanted the US to be as strong as the USSR with its loyal and patriotic population, they needed to remember that “free enterprise is not mere license to exploit the economy for personal gain. It is individual opportunity coupled with individual responsibility.”⁷³ With a similar thrust, in the 1970s neo-conservative forefather Irving Kristol had given only “two cheers for capitalism.” Kristol wanted to preserve the “modified version of capitalism we call ‘the welfare state’” (as long as it was a “conservative welfare state” with the powers of government kept in check). Wary of “the concentration of power in large corporations” and mindful that “the world does not move by economic sense alone,” Kristol urged business executives “to take cognizance of the important truth that, in a liberal democracy, everyone’s self-interest is best served if each of us is capable, when required, of temporarily rising above self-interest. That is the social responsibility of a corporation.”⁷⁴

How different it was a generation later, after the fall of the Soviet Union. Unlike Kristol, conservative publisher Malcolm S. Forbes, Jr. went all out, issuing “three cheers for capitalism” as a “truly miraculous” and “revolutionary sweeping agent of change.” He denied that the government could make any positive contribution whatsoever to a capitalist economy, which he claimed even the former communists of the East bloc had come to acknowledge.⁷⁵

The growing enthusiasm among conservatives for untrammelled capitalism suggests that when the threat of communism vanished, the “gentleman’s agreement that was Keynesianism” became null and void.⁷⁶ Robert J. Eaton, chief executive of the corporate disaster DaimlerChrysler, demonstrated this in the condescending lecture he gave to a German audience in 1999: “The idea that capitalism can be painless” is a delusion perpetrated by Western European social-welfare states—“the delusion that the costs of global capitalism can be avoided while the fruits of it are being enjoyed,” the delusion that it is fair, or that it alleviates poverty. “Collectivism and redistribution won’t work. They were tried. They failed. The [Berlin] Wall came down. End of story.”⁷⁷

The evidence for that assertion came not from Western Europe, but from Eastern Europe. Eaton could not recognize

the difference between the social-welfare states of the West and the socialist dictatorships of the East, assuming as he did that if it was not laissez-faire capitalism it was not capitalism at all. He failed to recognize that Western European capitalism took a slightly different shape than our own. The confusion stemmed from a black-and-white understanding of capitalism: like most Americans, Eaton was conditioned to believe that anything deviating from the American model or with an iota of government involvement in the economy was some variant of socialism or communism. And with the end of the Cold War and disappearance of our ideological rival there was no longer a need to measure ourselves against the practices of the Soviet Union.

This circumstance strengthened a dogmatic faith in the self-regulating market that was one of the causes of the ruinous financial crisis of 2008.⁷⁸ Even then, after the reputation of the American economic model suffered a global reversal of prestige, the comparisons with Russia remained in place, revealing how deeply intertwined they were to our understanding of capitalism in our own society and how essential they were to justifying the particular forms it took.

Capitalism out of Control

The new era of “turbo-capitalism,” it turned out, was dangerous at high speeds.⁷⁹ Without adequate traffic enforcement, the crash was inevitable. As the US government’s Financial Crisis Inquiry Commission concluded, “what else could one expect on a highway where there were neither speed limits nor neatly painted lines?”⁸⁰ Francis Fukuyama attributed the Great Recession to the “unholy alliance of true believers and Wall Street firms” that had won the battle for financial deregulation. The economy was in a wreck, he contended, because “the Reagan revolution lost its way”: it had “become an unimpeachable ideology,” no longer “a pragmatic response to the excesses of the welfare state.”⁸¹

For his part, recently retired Federal Reserve chairman Greenspan was in a “state of shocked disbelief” that deregulation had brought down the financial markets. As he testified before Congress, he was “very distressed” that there was a “flaw in the model” postulating that “the self-interest of lending institutions” would be sufficient for markets to correct themselves and prevent irrational or unethical behavior

⁷³ C. Randall, “Can Capitalism Win?” *Rotarian* (Jan. 1961), p. 20–22.

⁷⁴ I. Kristol, *Two Cheers for Capitalism* (NY, 1978), p. 15, 91, 95, 127; “Kristol of New York University,” *Forbes* (May 15, 1974), p. 74–75.

⁷⁵ Forbes, “Three Cheers for Capitalism,” p. 25, 244, 246.

⁷⁶ N. Klein, *Shock Doctrine: The Rise of Disaster Capitalism* (NY, 2007), p. 319.

⁷⁷ R. Eaton, “Global Capitalism,” *Vital Speeches of the Day* (Nov. 1, 1999), p. 39.

⁷⁸ The report of the US government’s Financial Crisis Inquiry Commission makes this connection: see its *Financial Crisis Inquiry Report* (Washington, DC, 2011), p. xviii, 53–54.

⁷⁹ The term is from E. Luttwak, *Turbo-Capitalism* (NY, 1999).

⁸⁰ US Government, Financial Crisis Inquiry Commission, *Financial Crisis Inquiry Report*, p. xvii.

⁸¹ F. Fukuyama, “Fall of America, Inc.,” *Newsweek* (Oct. 13, 2008), p. 30.

from bringing down the house. He was forced to admit that the “whole intellectual edifice...[had] collapsed.”⁸²

Greenspan deserves some credit for accepting that his theoretical foundation needed some repair. President Bush, on the other hand, was less inclined to question his assumptions and tried to put the financial crisis in perspective by comparing capitalism and communism. His November 2008 speech to the Manhattan Institute repeated decades of American thinking on economics: “Ultimately, the best evidence for free market capitalism is its performance compared to other economic systems....Nations that have pursued other models have experienced devastating results. Soviet communism starved millions, bankrupted an empire, and collapsed as decisively as the Berlin Wall....The record is unmistakable. If you seek economic growth, if you seek social justice and human dignity, the free market system is the way to go. And it would be a terrible mistake to allow a few months of crisis to undermine 60 years of success”—for “history has shown that the greater threat to economic prosperity is not too little government involvement in the market, it is too much government involvement in the market.”⁸³

Bush’s account is the same story we have seen all along: there are two possible economic systems in the world, free market (American model) and collectivist (Russian model). Ours won, the other lost. Ours is free, the other is not. Ours involves a minimal role for government, the other a large one. Obviously, something went wrong with ours. Bush blamed individual malefactors: “A relatively small group of people—many on Wall Street, some not—had gambled that the housing market would keep booming forever.”⁸⁴ But the crisis could have had nothing to do with laissez-faire economic policies because the only alternative—“too much government involvement in the market”—was tantamount to communism.

Some of the Republican politicians running for the presidency keep playing us that same old scratchy record.⁸⁵

Why is this comparison so persistent? Why are American discussions of capitalism still stuck in the same rut they were in as far back as the 1920s and 1930s?

It’s because our vision of capitalism has been clouded by our apprehension over the rise of Russia. For nearly a century our hyper-focus on Soviet communism kept us from looking further afield with anything but a quick glance, and that foreshortened our perception of our own economic system. We sized up American capitalism in relation to communism—to repeat Archibald MacLeish, as we “wandered into the Russian looking-glass.” Over time the images of capitalism we saw there lodged in our minds to become, according to Indian writer Pankaj Mishra, a set of “passively internalized ideological beliefs.”⁸⁶

My point is not that the dichotomizing of American capitalism and Russian communism was always off kilter. Nor is it that neo-liberal economic theories and policies are always wrong: as economist Paul A. Samuelson joked, “Just because Milton Friedman says something doesn’t necessarily mean that it’s not true.”⁸⁷ Rather, my purpose has been to call into question what we really know about capitalism by showing that at nearly every moment since the word came into use it was defined by way of comparison with the dreaded Soviet Frankenstein economy. As a result, American conceptions of capitalism have been, and still are, imbued with what Samuelson once called the economic “science fiction of the right as well as of the left and center.”⁸⁸

Steven G. Marks is Alumni Professor of History at Clemson University. Marks specializes in modern Russian and world economic history. He is currently writing on the concept of capitalism as well as the history of Russian money. This article was written for a conference co-sponsored by the Manhattan Institute and *Society*. Grateful acknowledgement is given to the Marilyn G. Fedak Capitalism Project for its support.

⁸² “Testimony of Dr. Alan Greenspan” (Oct. 23, 2008), Committee of Government Oversight and Reform, House of Representatives, US Congress. <http://clipsandcomment.com/wp-content/uploads/2008/10/greenspan-testimony-20081023.pdf>

⁸³ G. W. Bush, APP. www.presidency.ucsba.edu/ws/?pid=84854

⁸⁴ *Idem*, *Decision Points* (NY, 2010), p. 440.

⁸⁵ N. Gingrich, *To Save America: Stopping Obama’s Secular-Socialist Machine* (Washington, DC, 2010), 2, 4, 47, 147 (ex-vice-presidential candidate Sarah Palin’s position is similar: see her *America by Heart* (NY, 2010), 9–10, 84–89). Mitt Romney, on the other hand, has moved beyond the hackneyed dichotomies: see his *No Apology: The Case for American Greatness* (NY, 2010). Rick Perry does not seem to have ever mentioned the word “capitalism” in any of his public speeches (keyword search on www.votesmart.org/speech.php?can_id=15373).

⁸⁶ P. Mishra, “It’s a Round World after All,” *Harper’s Magazine* (Aug. 2007), p. 88.

⁸⁷ T. McCraw, “Alfred Chandler: His Vision and Achievement,” *Business History Review* (Summer 2008), p. 226.

⁸⁸ P. Samuelson, “Economic Scars,” *Newsweek* (Sept. 11, 1978), p. 82.