

CAPITALISM: THE CURE FOR RACISM

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I. The Accusations Against Capitalism

A gross inequality exists in the United States between the economic level of the average black and that of the average white. The typical black today earns only sixty-two percent of what the average American earns.

Because the United States is viewed as a fundamentally capitalistic country, this inequality is often blamed on the nature of capitalism. And, as a result, capitalism is frequently denounced as a system of economic exploitation of blacks.

I will refute the following major accusations commonly made against capitalism. 1) Under capitalism, black workers are paid less than whites for the identical work. 2) The skills and abilities of black workers are not utilized, i.e., blacks are arbitrarily shunted into low-skilled, low-paying jobs or into unemployment. 3) Blacks must pay higher rents than whites for the same or even inferior housing, and higher prices for the same or even inferior goods; and, while they do so, they must suffer the indignity of racial segregation—for example, they must live in separate neighborhoods, eat in separate restaurants, ride in the back of the bus, use separate washrooms, and so forth.

The basis of these accusations is the illegitimate treatment of a mere historical association as though it were a fundamental, causal connection. Namely: Capitalism is associated with the history of the United States. The history of the United States is also associated with a record of injustices committed against blacks. Hence, it is concluded, capitalism is guilty of the above accusations. The conclusion is obviously a *non equitur*.

My theme is that the above accusations are absolutely incorrect insofar as they are levelled against capitalism; and that to the extent they are correct, as descriptions of past or present conditions in the United States, the cause of the injustices is a *violation of the principles of capitalism*. Far from being the source of such injustices, capitalism is the *remedy* for them.

Let us understand the nature of capitalism.

By “capitalism,” I mean uncontrolled, unregulated, *laissez faire* capitalism. As Ayn Rand, the leading philosophical advocate of capitalism, writes in *Capitalism: The Unknown Ideal*:

Capitalism is a social system based on the recognition of individual rights, including property rights, in which all property is privately owned.

The recognition of individual rights entails the banishment of physical force from human relationships: basically, rights can be violated only by means of force. In a capitalistic society, no man or group may *initiate* the use of physical force against others. The only function of the government, in such a society, is the task of protecting man’s rights, i.e., the task of protecting him from physical force; the government acts as the agent of man’s right of self-defense, and may use force only in retaliation and only against those who initiate its use; thus the government is the means of placing the retaliatory use of force under *objective control*.

While capitalism is more than a purely economic system—as the quotation from Miss Rand shows—and recognizes man’s right to life, liberty, and property in all spheres of human activity, our particular focus is, of course, economic. And thus it is necessary to stress that under capitalism each individual is free to act—peaceably—to achieve his own gain. Capitalism is a system in which busi-

nessmen in their capacity as employers and as sellers are free to do what they consider to be most profitable to themselves. Wage earners and consumers, by the same token, are free to seek the highest wages and lowest prices they can find. The only restriction on the parties is that they are not to resort to the initiation of physical force (or to fraud, which is a species of force). At the same time, their freedom to act to achieve their own gains means that they are not to be the victims of the initiation of physical force. Each businessman, wage earner, and consumer under capitalism is free from the initiation of physical force both by other private individuals or groups and by government itself. As Miss Rand points out, government under capitalism is the individual's protector against force, and does not itself initiate any force against him. State and economic activity under capitalism are separate, in the same manner as state and church in the traditional American conception. In no way under capitalism does the government interfere in the peaceful pursuit of self-interest or allow anyone else to interfere. (For a fuller discussion of the concepts of rights, physical force, government, and the nature of capitalism, see Ayn Rand's articles "Man's Rights," "The Nature of Government," and "What Is Capitalism?" in *Capitalism: The Unknown Ideal*.)

Capitalism has obviously never existed fully in the United States. Even in the nineteenth century, it was mixed with conflicting elements of government controls. And for the American black, capitalism never existed even as an approximation. Slavery, the forced labor of one man for the benefit of another, was the diametrical opposite of capitalism.

The mixture of capitalism with controls has greatly accelerated in this century, to the point where it has long since ceased to be correct to describe the economic system of the United States as capitalism. The present system can only be described as a "mixed economy"—an economy which retains an essentially capitalistic structure, but whose functioning is grossly undermined by socialistically motivated acts of government intervention. And that is how I will refer to it in the pages that follow.

My purpose in this essay is twofold. First, to show how, if it did exist, capitalism would operate to eliminate all elements of the economic inequality between blacks and whites. And, second, to show what are the specific features of the mixed economy which constitute forcible obstacles to the advancement of blacks today and which would have to be repealed to make possible their advancement under capitalism.

II. Capitalism: The Cure for Racism

1. Capitalism and Justice for the Black Worker

Let us begin with the accusation that under capitalism blacks are paid less than whites for the identical work.

Such injustice is contrary to the operation of the profit motive, and is speedily eliminated where the profit motive is free to operate. Under the profit motive, if two kinds of labor are equally good, and one is less expensive than the other, employers choose the less expensive, because doing so cuts their costs and raises their profits. The effect of choosing the less expensive labor, however, is to *raise* its wages, since it is now in greater demand; while the effect of passing by the more expensive labor is to *reduce* its wages, since it is now in lesser demand. This process goes on until the wages of the two kinds of labor are either perfectly equal or the remaining difference is so small as not to be worth caring about by anyone.

As illustration of the fact that even very small differences in white and black wages could not be maintained under capitalism, consider the following example. Assume that white workers of a certain degree of skill are paid \$5 per hour. Assume that black workers of identically the same degree of skill can be hired for

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just five percent, that is 25¢ an hour, less. Assume that a factory must employ 500 workers of this degree of skill. With a forty-hour week, over a fifty-week year, this slight difference in hourly wage rates results in a saving of labor cost and a corresponding extra profit per year of \$250,000 if the factory owner employs 500 blacks rather than 500 whites (for $25¢ \times 500 \times 40 \times 50 = \$250,000$).

Even in the case of a small establishment employing only ten workers, the annual saving in labor cost, and thus the extra profit attaching to the employment of blacks, would be \$5,000 (since $25¢ \times 10 \times 40 \times 50 = \$5,000$)—enough for the owner to afford a new small car each year or to make significant improvements in his business.

It is doubtful that there are many employers so bigoted as to be willing to indulge their personal prejudice in favor of whites at a cost of \$250,000 per year, or even \$5,000 per year. The clear implication is that even slight differences in wage rates would make the employment of blacks in preference to whites virtually irresistible. Not only would a five percent differential in wages not be sustainable, but neither would a two percent or even a one percent differential. Every such differential would lead employers to hire blacks in preference to whites, and would thus bring about a further rise in the wage rates of blacks and a further fall in the wage rates of whites, until a virtually perfect equality was achieved.

Indeed, profit-seeking employers qua profit-seeking employers are simply unconcerned with race. Their principle is: of two equally good workers, hire the one who is available for less money; of two workers available for the same money, hire the one who is the better worker. Race is simply irrelevant. Any consideration of race means extra cost and less profit; it is bad business in the literal sense of the term.

It should be realized that one of the great merits of capitalism is that by its very *nature* employers are virtually compelled to be oblivious to race. The freedom of competition under capitalism ensures this result. For even if, initially, the majority of employers were so fanatically bigoted as to be willing to forgo extra profits for the sake of their prejudice, they would be powerless to prevent a minority of more rational employers from earning these extra profits. (“Rationality” in this context means not committing the contradiction of passing moral judgment against a person on the basis of his racial membership, and not allowing such an absurd judgment to outweigh the desire for profit. Such a judgment represents a logical contradiction in that morality pertains only to acts open to choice, while a man’s racial membership is not open to his choice.) The more rational employers would thus have a relatively greater income from which to save and expand their businesses than the irrational majority. Moreover, since they operated at lower costs, they could afford to charge lower prices and thus increase their profits still further by taking customers away from the irrational majority. The result of these factors would be that the more rational employers would tend to replace the less rational ones in economic importance. They would come to set the tone of the economy, and their attitudes would be transmitted to all other employers, who would seek to emulate their success. In this way, capitalism virtually guarantees the victory of rationality over racial bigotry.

Our discussion provides the answer to the second accusation—the charge that under capitalism the skills and abilities of black workers are not utilized. It follows from our discussion that the unhampered profit motive leads employers to place blacks in the highest positions for which their skills and abilities qualify them. Consider the following example. Assume that a skilled lathe operator must be paid \$10 per hour, and that black workers who have been taught this skill in a trade school are presently employed as janitors at \$4 per hour. The black workers would almost certainly be willing to change their jobs for a raise to, say, \$5 an