



The

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BOX 618, ALTON, ILLINOIS 62002

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American Capitalism = Pro-Family Economics

A Review of Wealth and Poverty
by George Gilder (Basic Books, \$16.95)

At last a book has been written by an economist who is sensitive to moral values, family integrity, gender identity, and cultural differences. At last a book has been written by an economist who understands human motivation as well as graphs and statistics.

At last a book has been written which interprets for everyone why American capitalism creates the wealth which alone can produce more jobs and a higher standard of living for all. That's because it was written by a man who understands not only economics but also the social, psychological and political dynamics of the environment.

At last we have a book which proves that American capitalism is based on faith not on selfishness, on the golden rule rather than on predatory acquisitiveness and exploitation, on giving now but receiving later. At last we have a book which demonstrates that American capitalism is a highly moral economic system.

At last we have a book which proves that American capitalism is a system in which the golden rule is economically sound, that is, it provides a way of producing wealth in which one's own good fortune also produces good fortune for others. One does not gain at the expense of others, but only when others gain, too.

Socialism has failed to build a productive economy anywhere, but has succeeded well in the psychological art of making American capitalists apologize for building a successful economy that has conquered the wilderness, created abundance, and built factories, hospitals and universities. The socialists have falsely labelled their system as idealistic and the capitalist system as materialistic.

At last a book has been written which exposes the crass materialism of socialism: its dogma that resources and capital are essentially things that can be used up, and which one can acquire only by taking from others. Socialism teaches that the wealth of some is squeezed out of the necessities of others; that wealth, therefore, causes poverty and is bad, embarrassing, and something to conceal. Socialism, by its very dogma, creates envy in the heart and poverty in the pocketbook.

At last a book has been written which explains the fundamental morality and idealism of capitalism. Its dogma rests on a belief that resources and capital are

products of human will and imagination which are inexhaustible in a free society. Under capitalism, the pie grows bigger and all get a larger slice because everybody gains from the mutuality of the system.

At last a book has been written to show that only the creation of new wealth can ever win the war on poverty. This is a book which shows how capitalism converts the eternal search for security (manifested in savings) into a willingness to risk those savings (manifested in enterprise) to create new wealth.

Economists base their analyses and predictions on statistics and graphs. At last a book shows how psychological and social forces -- motivation and incentives, ambition and determination -- can shape an economy's growth and progress.

At last a book has been written to show that the secret of capitalism is not selfishness or cynicism but faith. This book shows how capitalism converts fear of the future (savings for a rainy day) into faith in the future (investment), turns caution into creativity, timidity into entrepreneurship, and the desire to conserve into the drive to build and innovate.

At last we have a book which shows how the family structure is essential to the creation of wealth because it motivates husbands and fathers to work to provide for their families. To remove the male provider from a culture (as is effectively done in the AFDC welfare system) simply perpetuates poverty.

George Gilder, in his new book *Wealth and Poverty*, doesn't merely explain how wealth is created, how poverty can be avoided, what makes our American economy function, and what's right about American capitalism. Gilder shows how the American capitalist system, as defined by the brilliant economists who have come into prominence under the Reagan Administration, is essential to the pro-family ideology.

All those who want to understand how economic issues are influenced, and indeed controlled, by moral and social issues should read *Wealth and Poverty*. All those who want to preserve the economic integrity of the family (as well as its moral and social integrity), must read *Wealth and Poverty*.

Excerpts from *Wealth and Poverty*

The Returns of Giving

Capitalist production entails faith -- in one's neighbors, in one's society, and in the compensatory logic of the cosmos. Search and you shall find, give and you will be given unto, supply creates its own demand. It is this cosmology, this sequential logic, that essentially distinguishes the free from the socialist economy. The socialist economy proceeds from a rational definition of needs or demands to a prescription of planned supplies. In a socialist economy, one does not supply until the demands have already been determined and specified. Rationality rules, and it rules out the awesome uncertainties and commensurate acts of faith that are indispensable to an expanding and innovative system. . . .

Socialism is an insurance policy bought by all the members of a national economy to shield them from risk. But the result is to shield them from knowledge of the real dangers and opportunities ubiquitous in any society. Rather than benefiting from a multiplicity of gifts and experiments, the entire economy absorbs the much greater risk of remaining static in a dynamic world. In a capitalist economy, with more of the risks borne by the individual citizens and entrepreneurs, and thus vigilantly appraised and treated, the overall system may be more stable.

The crucial difference, however, is that the capitalist, by giving before he takes, pursues a mode of thinking and acting suitable to uncertainty. The socialist makes a national plan in which existing patterns of need and demand are ascertained, and then businesses are contracted to fulfill them; demand comes first. One system is continually, endlessly performing experiments, testing hypotheses, discovering partial knowledge; the other is assembling data of inputs and outputs and administering the resulting plans.

Socialism presumes that we already know most of what we need to know to accomplish our national goals. Capitalism is based on the idea that we live in a world of unfathomable complexity, ignorance, and peril, and that we cannot possibly prevail over our difficulties without constant efforts of initiative, sympathy, discovery, and love. One system maintains that we can reliably predict and elicit the outcomes we demand. The other asserts that we must give long before we can know what the universe will return. One is based on empirically calculable human power; the other on optimism and faith. These are the essential visions that compete in the world and determine our fate.

Under capitalism, the ventures of reason are launched into a world ruled by morality and Providence. The gifts will succeed only to the extent that they are altruistic and spring from an understanding of the needs of others. They depend on faith in an essentially fair and responsive humanity. In such a world, one can give without a contract of compensation. One can venture without the assurance of reward. One can seek the surprises of profit, rather than the more limited benefits of contractual pay. One can take initiative amid radical perils and uncertainties.

When faith dies, so does enterprise. It is impossible to create a system of collective regulation and safety that does not finally deaden the moral sources of the willingness to face danger and fight, that does not dampen the spontaneous flow of gifts and experiments which extend the dimensions of the world and the circles of human sympathy.

The ultimate strength and crucial weakness of both capitalism and democracy are their reliance on individual creativity and courage, leadership and morality, intuition and faith. But there is no alternative, except mediocrity and stagnation. Reason and calculation, for all their appeal, can never suffice in a world where events are shaped by millions of men, acting unknowably, in fathomless interplay and complexity, in the darkness of time.

The superficial strength and final disabling flaw of collectivism is its belief in the possibility of detailed rational knowledge of human affairs and their future effects. The man who seeks assurance and certainty lives always in the past, which alone is sure, and his policies, despite all "progressive" rhetoric, are necessarily reactionary. Certain knowledge, to the extent that it ever comes, is given us only after the moment of opportunity has passed. The venturer who awaits the emergence of a safe market, the tax-cutter who demands full assurance of new revenue, the leader who seeks a settled public opinion, all will always act too timidly and too late.

A nation's producers can never depend on preordained demand for their goods. The demand arises from the quality of the goods themselves, and the qualities demanded will continually change in a changing world. The man who shapes the future must live ever in doubt and thus thrive on faith. The future of Western democracy and capitalism depends on whether this faith in the future still prospers in the lands that gave it birth. . . .

The Nature of Poverty

THE ONLY dependable route from poverty is always work, family, and faith. The first principle is that in order to move up, the poor must not only work, they must work harder than the classes above them. Every previous generation of the lower class has made such efforts. But the current poor, white even more than black, are refusing to work hard. . . . For several understandable reasons, the current poor work substantially less, for fewer hours and weeks a year, and earn less in proportion to their age, education and other credentials (even *after* correcting the figures for unemployment, disability, and presumed discrimination) than either their predecessors in American cities or those now above them on the income scale. . . . Work effort is the crucial unmeasured variable in American productivity and income distribution, and current welfare and other subsidy programs substantially reduce work. The poor choose leisure not because of moral weakness, but because they are paid to do so.

A program to lift by transfers and preferences the incomes of less diligent groups is politically divisive -- and very unlikely -- because it incurs the bitter resistance of the real working class. In addition, such an effort

verty by George Gilder © 1981 by George Gilder

breaks the psychological link between effort and reward, which is crucial to long-run upward mobility. Because effective work consists not in merely fulfilling the requirements of labor contracts, but in "putting out" with alertness and emotional commitment, workers have to understand and feel deeply that what they are given depends on what they give -- that they must supply work in order to demand goods. Parents and schools must inculcate this idea in their children both by instruction and example. Nothing is more deadly to achievement than the belief that effort will not be rewarded, that the world is a bleak and discriminatory place in which only the predatory and the specially preferred can get ahead. Such a view in the home discourages the work effort in school that shapes earnings capacity afterward. As with so many aspects of human performance, work effort begins in family experiences, and its sources can be best explored through an examination of family structure.

Love, Marriage, Family

Indeed, after work the second principle of upward mobility is the maintenance of monogamous marriage and family. Adjusting for discrimination against women and for child-care responsibilities, married men work between two and one-third and four times harder than married women, and more than twice as hard as female family heads. The work effort of married men increases with their age, credentials, education, job experience, and birth of children, while the work effort of married women steadily declines. Most important in judging the impact of marriage, husbands work 50 percent harder than bachelors of comparable age, education, and skills.

The effect of marriage, thus, is to increase the work effort of men by about half. Since men have higher earnings capacity to begin with, and since the female capacity-utilization figures would be even lower without an adjustment for discrimination, it is manifest that the maintenance of families is the key factor in reducing poverty.

Once a family is headed by a woman, it is almost impossible for it to greatly raise its income even if the woman is highly educated and trained and she hires day-care or domestic help. Her family responsibilities and distractions tend to prevent her from the kind of all-out commitment that is necessary for the full use of earning power. Few women with children make earning money the top priority in their lives.

A married man, on the other hand, is spurred by the claims of family to channel his otherwise disruptive male aggressions into his performance as a provider for a wife and children. These sexual differences alone, which manifest themselves in all societies known to anthropology, dictate that the first priority of any serious program against poverty is to strengthen the male role in poor families. . . .

The short-sighted outlook of poverty stems largely from the breakdown of family responsibilities among fathers. The lives of the poor, all too often, are governed by the rhythms of tension and release that characterize

the sexual experience of young single men. Because female sexuality, as it evolved over the millenia, is psychologically rooted in the bearing and nurturing of children, women have long horizons within their very bodies, glimpses of eternity within their wombs. Civilized society is dependent upon the submission of the short-term sexuality of young men to the extended maternal horizons of women. This is what happens in monogamous marriage; the man disciplines his sexuality and extends it into the future through the womb of a woman. The woman gives him access to his children, otherwise forever denied him; and he gives her the product of his labor, otherwise dissipated on temporary pleasures.

It is love that changes the short horizons of youth and poverty into the long horizons of marriage and career. When marriages fail, the man often returns to the more primitive rhythms of singleness. On the average, his income drops by one-third and he shows a far higher propensity for drink, drugs, and crime. But when marriages in general hold firm and men in general love and support their children, lower-class style changes into middle-class futurity.

The key to the intractable poverty of the hardcore American poor is the dominance of single and separated men in poor communities. Black "unrelated individuals" are not much more likely to be in poverty than white ones. The problem is neither race nor matriarchy in any meaningful sense. It is familial anarchy among the concentrated poor of the inner city, in which flamboyant and impulsive youths rather than responsible men provide the themes of aspiration. The result is that male sexual rhythms tend to prevail, and boys are brought up without authoritative fathers in the home to instill in them the values of responsible paternity: the discipline and love of children and the dependable performance of the provider role. . . .

It was firm links between work, wealth, sex, and children that eventually created a future-oriented psychology in the mass of Western European men. . . . The act of marriage is necessarily one which stands centrally in the whole complex of social behavior. In particular, it stands centrally to a man's attitude toward time, and thus toward saving and capital. Conversely, a condition of widespread illegitimacy and family breakdown can be a sufficient cause of persistent poverty, separating men from the extended horizons embodied in their children.

An analysis of poverty that begins and ends with family structure and marital status would explain far more about the problem than most of the distributions of income, inequality, unemployment, education, IQ, race, sex, home ownership, location, discrimination, and all the other items usually multiply regressed and correlated on academic computers. But even an analysis of work and family would miss what is perhaps the most important of the principles of upward mobility under capitalism -- namely, faith. . . .

Faith in man, faith in the future, faith in the rising returns of giving, faith in the mutual benefits of trade, faith in the providence of God are all essential to success-

ful capitalism. All are necessary to sustain the spirit of work and enterprise against the setbacks and frustrations it inevitably meets in a fallen world; to inspire trust and cooperation in an economy where they will often be betrayed; to encourage the forgoing of present pleasures in the name of a future that may well go up in smoke; to promote risk and initiative in a world where the rewards all vanish unless others join the game. In order to give without the assurance of return, in order to save without the certainty of future value, in order to work beyond the requirements of the job, one has to have confidence in a higher morality: a law of compensations beyond the immediate and distracting struggles of existence. . . .

In general, however, upward mobility depends on all three principles -- work, family, and faith -- interdependently reaching toward children and future. These are the pillars of a free economy and a prosperous society. They are being eroded now in America by the intellectual and political leaders of perhaps the freest and most prosperous of all the world's societies. . . .

The Necessity for Faith

The most dire and fatal hubris for any leader is to cut off his people from providence, from the miraculous prodigality of chance, by substituting a closed system of human planning. Success is always unpredictable and thus an effect of faith and freedom.

All human pioneers, from poets and composers in their many epiphanies to scientists on the mystical frontiers of matter where life again begins, are essentially engaged in forms of devotion. All knowledge of living and growing things (concepts and economies) is partly subjective and intuitive and thus mystically dependent on the ideas of others and on the worship, however unconscious, of God. God is the foundation of all living knowledge; and the human mind, to the extent it can know anything beyond its own meager reach, partakes of the mind of God.

In the United States today we are facing the usual calculus of impossibility, recited by the familiar aspirants to a master plan. It is said we must abandon economic freedom because our frontier is closed; because our biosphere is strained; because our resources are running out; because our technology is perverse; because our population rises; because our horizons are closing in. We walk, it is said, in the shadow of death, with depleted air, poisoned earth and water, and a fallout of explosive growth showering from the clouds of our future in a quiet carcinogenic rain. In this extremity, we cannot afford the luxuries of competition and waste and freedom. We have reached the end of the open road; we are beating against the gates of an occluded frontier. We must tax and regulate and plan, redistribute our wealth and ration our consumption, because we have reached the end of openness.

But quite to the contrary, these problems and crises are in themselves the new frontier; are themselves the mandate for individual and corporate competition and creativity; are themselves the reason why we cannot afford the consolations of planning and stasis. The old frontier of the American West also appeared closed at first. It became an open reservoir of wealth only in retrospect, because the pioneers dared to risk their lives and families in the quest for riches, looking for gold (of which there was relatively little in the United States) and finding oil (then of little use). Only in retrospect were the

barrens of Texas and Oklahoma an energy cornucopia, the flat prairies a breadbasket for the world, or Thomas Edison a catalytic genius and Henry Ford the salvation of capitalism in the grips of an earlier closing circle. The future is forever incalculable; only in freedom can its challenges be mastered.

The economists, who make the case for stasis and planning in these terms, formulate point by point the case against themselves. The closing circle, the resource crisis, the thermal threat, the nuclear peril, the "graying" of technology, the population advance, the famine factor, and whatever else is new in the perennial jeremiad of the rational budgeteer and actuary of our fate -- all these conditions are themselves the mandate for capitalism. To overcome it is necessary to have faith, to recover the belief in chance and providence, in the ingenuity of free and God-fearing men.

This belief will allow us to see the best way of helping the poor, the way to understand the truths of equality before God that can only come from freedom and diversity on earth. It will lead us to abandon, above all, the idea that the human race can become self-sufficient, can separate itself from chance and fortune in a hubristic siege of rational resource management, income distribution, and futuristic planning. Our greatest and only resource is the miracle of human creativity in a relation of openness to the divine. It is a resource that above all we should deny neither to the poor, who can be the most open of all to the future, nor to the rich or excellent of individuals, who can lend leadership, imagination, and wealth to the cause of beneficent change.

The tale of human life is less the pageant of unfolding rationality and purpose envisaged by the Enlightenment than a saga of desert wanderings and brief bounty, the endless dialogue between man and God, between alienation and providence, as we search for the ever-rising and receding promised land, which we can see most clearly, with the most luminous logic, when we have the faith and courage to leave ourselves open to chance and fate. . . .

Congressman Jack F. Kemp has described *Wealth and Poverty* as "the first book in years that compellingly makes the case for the moral as well as practical merits of capitalism." Office of Management and Budget Director David Stockman has described *Wealth and Poverty* as a book that "shatters once and for all the Keynesian and welfare state illusions."

George Gilder is also the author of *Sexual Suicide* and a contributor to many journals. He is Program Director of the International Center for Economic Policy Studies and Chairman of the Economic Roundtable at the Lehrman Institute.

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