

AYN RAND

---

**CAPITALISM:  
THE UNKNOWN IDEAL**

---

With additional articles by  
**NATHANIEL BRANDEN,  
ALAN GREENSPAN,  
and ROBERT HESSEN**



A SIGNET BOOK

# THEORY AND HISTORY

---

## 1. WHAT IS CAPITALISM?

BY AYN RAND

The disintegration of philosophy in the nineteenth century and its collapse in the twentieth have led to a similar, though much slower and less obvious, process in the course of modern science.

Today's frantic development in the field of technology has a quality reminiscent of the days preceding the economic crash of 1929: riding on the momentum of the past, on the unacknowledged remnants of an Aristotelian epistemology, it is a hectic, feverish expansion, heedless of the fact that its theoretical account is long since overdrawn—that in the field of scientific theory, unable to integrate or interpret their own data, scientists are abetting the resurgence of a primitive mysticism. In the humanities, however, the crash is past, the depression has set in, and the collapse of science is all but complete.

The clearest evidence of it may be seen in such comparatively young sciences as psychology and political economy. In psychology, one may observe the attempt to study human behavior without reference to the fact that man is conscious. In political economy, one may observe the attempt to study and to devise social systems without reference to *man*.

It is philosophy that defines and establishes the epistemological criteria to guide human knowledge in general and specific sciences in particular. Political economy came into prominence in the nineteenth century, in the era of philosophy's post-Kantian disintegration, and no one rose to check its premises or to challenge its base. Implicitly, uncritically, and by default, political economy accepted as its axioms the fundamental tenets of collectivism.

*The Objectivist Newsletter*, November and December 1965.

Political economists—including the advocates of capitalism—defined their science as the study of the management or direction or organization or manipulation of a “community’s” or a nation’s “resources.” The nature of these “resources” was not defined; their communal ownership was taken for granted—and the goal of political economy was assumed to be the study of how to utilize these “resources” for “the common good.”

The fact that the principal “resource” involved was man himself, that he was an entity of a specific nature with specific capacities and requirements, was given the most superficial attention, if any. Man was regarded simply as one of the factors of production, along with land, forests, or mines—as one of the less significant factors, since more study was devoted to the influence and quality of these others than to *his* role or quality.

Political economy was, in effect, a science starting in midstream: it observed that men were producing and trading, it took for granted that they had always done so and always would—it accepted this fact as the given, requiring no further consideration—and it addressed itself to the problem of how to devise the best way for the “community” to dispose of human effort.

There were many reasons for this tribal view of man. The morality of altruism was one; the growing dominance of political statism among the intellectuals of the nineteenth century was another. Psychologically, the main reason was the soul-body dichotomy permeating European culture: material production was regarded as a demeaning task of a lower order, unrelated to the concerns of man’s intellect, a task assigned to slaves or serfs since the beginning of recorded history. The institution of serfdom had lasted, in one form or another, till well into the nineteenth century; it was abolished, politically, only by the advent of capitalism; politically, but not intellectually.

The concept of man as a free, independent individual was profoundly alien to the culture of Europe. It was a tribal culture down to its roots; in European thinking, the tribe was the entity, the unit, and man was only one of its expendable cells. This applied to rulers and serfs alike: the rulers were believed to hold their privileges only by virtue of the services they rendered to the tribe, services regarded as of a noble order, namely, armed force or military defense. But a nobleman was as much chattel of the tribe as a serf: his life and property belonged to the king. It must be remembered that

the institution of private property, in the full, legal meaning of the term, was brought into existence only by capitalism. In the pre-capitalist eras, private property existed *de facto*, but not *de jure*, *i.e.*, by custom and sufferance, not by right or by law. In law and in principle, all property belonged to the head of the tribe, the king, and was held only by his permission, which could be revoked at any time, at his pleasure. (The king could and did expropriate the estates of recalcitrant noblemen throughout the course of Europe's history.)

The American philosophy of the Rights of Man was never grasped fully by European intellectuals. Europe's predominant idea of emancipation consisted of changing the concept of man as a slave of the absolute state embodied by a king, to the concept of man as a slave of the absolute state embodied by "the people"—*i.e.*, switching from slavery to a tribal chief into slavery to the tribe. A non-tribal view of existence could not penetrate the mentalities that regarded the privilege of ruling material producers by physical force as a badge of nobility.

Thus Europe's thinkers did not notice the fact that during the nineteenth century, the galley slaves had been replaced by the inventors of steamboats, and the village blacksmiths by the owners of blast furnaces, and they went on thinking in such terms (such contradictions in terms) as "wage slavery" or "the antisocial selfishness of industrialists who take so much from society without giving anything in return"—on the unchallenged axiom that wealth is an anonymous, social, tribal product.

That notion has not been challenged to this day; it represents the implicit assumption and the base of contemporary political economy.

As an example of this view and its consequences, I shall cite the article on "Capitalism" in the *Encyclopaedia Britannica*. The article gives no definition of its subject; it opens as follows:

CAPITALISM, a term used to denote the economic system that has been dominant in the western world since the breakup of feudalism. Fundamental to any system called capitalist are the relations between private owners of nonpersonal means of production (land, mines, *industrial plants*, etc., collectively known as capital) [*italics mine*] and free but capitalless workers, who sell their labour services to employers. . . . The resulting wage bargains determine the proportion in which the

total product of society will be shared between the class of labourers and the class of capitalist entrepreneurs.<sup>1</sup>

(I quote from Galt's speech in *Atlas Shrugged*, from a passage describing the tenets of collectivism: "An industrialist—blank-out—there is no such person. A factory is a 'natural resource,' like a tree, a rock or a mud-puddle.")

The success of capitalism is explained by the *Britannica* as follows:

Productive use of the "social surplus" was the special virtue that enabled capitalism to outstrip all prior economic systems. Instead of building pyramids and cathedrals, those in command of the social surplus chose to invest in ships, warehouses, raw materials, finished goods and other material forms of wealth. The social surplus was thus converted into enlarged productive capacity.

This is said about a time when Europe's population subsisted in such poverty that child mortality approached fifty percent, and periodic famines wiped out the "surplus" population which the pre-capitalist economies were unable to feed. Yet, making no distinction between tax-expropriated and industrially produced wealth, the *Britannica* asserts that it was the *surplus wealth* of that time that the early capitalists "commanded" and "chose to invest"—and that this investment was the cause of the stupendous prosperity of the age that followed.

What is a "social surplus"? The article gives no definition or explanation. A "surplus" presupposes a norm; if subsistence on a chronic starvation level is above the implied norm, what is that norm? The article does not answer.

There is, of course, no such thing as a "social surplus." All wealth is produced by somebody and belongs to somebody. And "the special virtue that enabled capitalism to outstrip all prior economic systems" was *freedom* (a concept eloquently absent from the *Britannica's* account), which led, not to the expropriation, but to the *creation* of wealth.

I shall have more to say later about that disgraceful article (disgraceful on many counts, not the least of which is scholarship). At this point, I quoted it only as a succinct example of the tribal premise that underlies today's political economy. That premise is shared by the enemies and the champions of capitalism alike; it provides the former with a certain inner

<sup>1</sup> *Encyclopaedia Britannica*, 1964, Vol. IV, pp. 839-845.

consistency, and disarms the latter by a subtle, yet devastating aura of moral hypocrisy—as witness, their attempts to justify capitalism on the ground of “the common good” or “service to the consumer” or “the best allocation of resources.” (*Whose resources?*)

If capitalism is to be understood, it is this *tribal premise* that has to be checked—and challenged.

Mankind is not an entity, an organism, or a coral bush. The entity involved in production and trade is *man*. It is with the study of man—not of the loose aggregate known as a “community”—that any science of the humanities has to begin.

This issue represents one of the epistemological differences between the humanities and the physical sciences, one of the causes of the former’s well-earned inferiority complex in regard to the latter. A physical science would not permit itself (not yet, at least) to ignore or bypass the nature of its subject. Such an attempt would mean: a science of astronomy that gazed at the sky, but refused to study individual stars, planets, and satellites—or a science of medicine that studied disease, without any knowledge or criterion of health, and took, as its basic subject of study, a hospital as a whole, never focusing on individual patients.

A great deal may be learned about society by studying man; but this process cannot be reversed: nothing can be learned about man by studying society—by studying the inter-relationships of entities one has never identified or defined. Yet that is the methodology adopted by most political economists. Their attitude, in effect, amounts to the unstated, implicit postulate: “Man is that which fits economic equations.” Since he obviously does not, this leads to the curious fact that in spite of the practical nature of their science, political economists are oddly unable to relate their abstractions to the concretes of actual existence.

It leads also to a baffling sort of double standard or double perspective in their way of viewing men and events: if they observe a shoemaker, they find no difficulty in concluding that he is working in order to make a living; but as political economists, on the tribal premise, they declare that his purpose (and duty) is to provide society with shoes. If they observe a panhandler on a street corner, they identify him as a bum; in political economy, he becomes “a sovereign consumer.” If they hear the communist doctrine that all property should belong to the state, they reject it emphatically and feel, *sincerely*, that they would fight communism to the death; but in political economy, they speak of the govern-

ment's duty to effect "a fair redistribution of wealth," and they speak of businessmen as the best, most efficient trustees of the nation's "natural resources."

This is what a basic premise (and philosophical negligence) will do; this is what the tribal premise has done.

To reject that premise and begin at the beginning—in one's approach to political economy and to the evaluation of various social systems—one must begin by identifying man's nature, *i.e.*, those essential characteristics which distinguish him from all other living species.

Man's essential characteristic is his rational faculty. Man's mind is his basic means of survival—his only means of gaining knowledge.

Man cannot survive, as animals do, by the guidance of mere percepts. . . . He cannot provide for his simplest physical needs without a process of thought. He needs a process of thought to discover how to plant and grow his food or how to make weapons for hunting. His percepts might lead him to a cave, if one is available—but to build the simplest shelter, he needs a process of thought. No percepts and no "instincts" will tell him how to light a fire, how to weave cloth, how to forge tools, how to make a wheel, how to make an airplane, how to perform an appendectomy, how to produce an electric light bulb or an electronic tube or a cyclotron or a box of matches. Yet his life depends on such knowledge—and only a volitional act of his consciousness, a process of thought, can provide it.<sup>2</sup>

A process of thought is an enormously complex process of identification and integration, which only an individual mind can perform. There is no such thing as a collective brain. Men can learn from one another, but learning requires a process of thought on the part of every individual student. Men can cooperate in the discovery of new knowledge, but such cooperation requires the independent exercise of his rational faculty by every individual scientist. Man is the only living species that can transmit and expand his store of knowledge from generation to generation; but such transmission requires a process of thought on the part of the individual recipients. As witness, the breakdowns of civilization, the dark ages in the history of mankind's progress, when the accumulated knowledge of centuries vanished from the lives of men who were unable, unwilling, or forbidden to think.

\* Ayn Rand, "The Objectivist Ethics," in *The Virtue of Selfishness*.

In order to sustain its life, every living species has to follow a certain course of action required by its nature. The action required to sustain human life is primarily intellectual: everything man needs has to be discovered by his mind and produced by his effort. Production is the application of reason to the problem of survival.

If some men do not choose to think, they can survive only by imitating and repeating a routine of work discovered by others—but those others had to discover it, or none would have survived. If some men do not choose to think or to work, they can survive (temporarily) only by looting the goods produced by others—but those others had to produce them, or none would have survived. Regardless of what choice is made, in this issue, by any man or by any number of men, regardless of what blind, irrational, or evil course they may choose to pursue—the fact remains that reason is man's means of survival and that men prosper or fail, survive or perish in proportion to the degree of their rationality.

Since knowledge, thinking, and rational action are properties of the individual, since the choice to exercise his rational faculty or not depends on the individual, man's survival requires that those who think be free of the interference of those who don't. Since men are neither omniscient nor infallible, they must be free to agree or disagree, to cooperate or to pursue their own independent course, each according to his own rational judgment. Freedom is the fundamental requirement of man's mind.

A rational mind does not work under compulsion; it does not subordinate its grasp of reality to anyone's orders, directives, or controls; it does not sacrifice its knowledge, its view of the truth, to anyone's opinions, threats, wishes, plans, or "welfare." Such a mind may be hampered by others, it may be silenced, proscribed, imprisoned, or destroyed; it cannot be forced; a gun is not an argument. (An example and symbol of this attitude is Galileo.)

It is from the work and the inviolate integrity of such minds—from the intransigent innovators—that all of mankind's knowledge and achievements have come. (See *The Fountainhead*.) It is to such minds that mankind owes its survival. (See *Atlas Shrugged*.)

The same principle applies to all men, on every level of ability and ambition. To the extent that a man is guided by his rational judgment, he acts in accordance with the requirements of his nature and, to that extent, succeeds in achieving a human form of survival and well-being; to the extent that he acts irrationally, he acts as his own destroyer.



The social recognition of man's rational nature—of the connection between his survival and his use of reason—is the concept of *individual rights*.

I shall remind you that "rights" are a moral principle defining and sanctioning a man's freedom of action in a social context, that they are derived from man's nature as a rational being and represent a necessary condition of his particular mode of survival. I shall remind you also that the right to life is the source of all rights, including the right to property.<sup>8</sup>

In regard to political economy, this last requires special emphasis: man has to work and produce in order to support his life. He has to support his life by his own effort and by the guidance of his own mind. If he cannot dispose of the product of his effort, he cannot dispose of his effort; if he cannot dispose of his effort, he cannot dispose of his life. Without property rights, no other rights can be practiced.

Now, bearing these facts in mind, consider the question of what social system is appropriate to man.

A social system is a set of moral-political-economic principles embodied in a society's laws, institutions, and government, which determine the relationships, the terms of association, among the men living in a given geographical area. It is obvious that these terms and relationships depend on an identification of man's nature, that they would be different if they pertain to a society of rational beings or to a colony of ants. It is obvious that they will be radically different if men deal with one another as free, independent individuals, on the premise that every man is an end in himself—or as members of a pack, each regarding the others as the means to *his* ends and to the ends of "the pack as a whole."

There are only two fundamental questions (or two aspects of the same question) that determine the nature of any social system: Does a social system recognize individual rights?—and: Does a social system ban physical force from human relationships? The answer to the second question is the practical implementation of the answer to the first.

Is man a sovereign individual who owns his 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, that may dictate his convictions, prescribe the course of his life, control his work and expropriate his products? Does man have the *right* to

<sup>8</sup> For a fuller discussion of rights, I refer you to my articles "Man's Rights" in the appendix, and "Collectivized 'Rights'" in *The Virtue of Selfishness*.

exist for his own sake—or is he born in bondage, as an indentured servant who must keep buying his life by serving the tribe but can never acquire it free and clear?

This is the first question to answer. The rest is consequences and practical implementations. The basic issue is only: Is man free?

In mankind's history, capitalism is the only system that answers: Yes.

*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 capitalist 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*.<sup>4</sup>

It is the basic, metaphysical fact of man's nature—the connection between his survival and his use of reason—that capitalism recognizes and protects.

In a capitalist society, all human relationships are *voluntary*. Men are free to cooperate or not, to deal with one another or not, as their own individual judgments, convictions, and interests dictate. They can deal with one another only in terms of and by means of reason, *i.e.*, by means of discussion, persuasion, and *contractual* agreement, by voluntary choice to mutual benefit. The right to agree with others is not a problem in any society; it is *the right to disagree* that is crucial. It is the institution of private property that protects and implements the right to disagree—and thus keeps the road open to man's most valuable attribute (valuable personally, socially, and *objectively*): the creative mind.

This is the cardinal difference between capitalism and collectivism.

The power that determines the establishment, the changes, the evolution, and the destruction of social systems is philosophy. The role of chance, accident, or tradition, in this context, is the same as their role in the life of an individual: their power stands in inverse ratio to the power of a culture's

<sup>4</sup> For a fuller discussion of this subject, see my article "The Nature of Government" in the appendix.

(or an individual's) philosophical equipment, and grows as philosophy collapses. It is, therefore, by reference to philosophy that the character of a social system has to be defined and evaluated. Corresponding to the four branches of philosophy, the four keystones of capitalism are: metaphysically, the requirements of man's nature and survival—epistemologically, reason—ethically, individual rights—politically, freedom.

This, in substance, is the base of the proper approach to political economy and to an understanding of capitalism—not the tribal premise inherited from prehistorical traditions.

The "practical" justification of capitalism does not lie in the collectivist claim that it effects "the best allocation of national resources." Man is *not* a "national resource" and neither is his mind—and without the creative power of man's intelligence, raw materials remain just so many useless raw materials.

The *moral* justification of capitalism does not lie in the altruist claim that it represents the best way to achieve "the common good." It is true that capitalism does—if that catchphrase has any meaning—but this is merely a secondary consequence. The moral justification of capitalism lies in the fact that it is the only system consonant with man's rational nature, that it protects man's survival *qua* man, and that its ruling principle is: *justice*.

Every social system is based, explicitly or implicitly, on some theory of ethics. The tribal notion of "the common good" has served as the moral justification of most social systems—and of all tyrannies—in history. The degree of a society's enslavement or freedom corresponded to the degree to which that tribal slogan was invoked or ignored.

"The common good" (or "the public interest") is an undefined and undefinable concept: there is no such entity as "the tribe" or "the public"; the tribe (or the public or society) is only a number of individual men. Nothing can be good for the tribe as such; "good" and "value" pertain *only* to a living organism—to an individual living organism—not to a disembodied aggregate of relationships.

"The common good" is a meaningless concept, unless taken literally, in which case its only possible meaning is: the sum of the good of *all* the individual men involved. But in that case, the concept is meaningless as a moral criterion: it leaves open the question of what *is* the good of individual men and how does one determine it?

It is not, however, in its literal meaning that that concept is generally used. It is accepted precisely for its elastic,

undefinable, mystical character which serves, not as a moral guide, but as an escape from morality. Since the good is not applicable to the disembodied, it becomes a moral blank check for those who attempt to embody it.

When "the common good" of a society is regarded as something apart from and superior to the individual good of its members, it means that the good of *some* men takes precedence over the good of others, with those others consigned to the status of sacrificial animals. It is tacitly assumed, in such cases, that "the common good" means "the good of the *majority*" as against the minority or the individual. Observe the significant fact that that assumption is *tacit*: even the most collectivized mentalities seem to sense the impossibility of justifying it morally. But "the good of the majority," too, is only a pretense and a delusion: since, in fact, the violation of an individual's rights means the abrogation of all rights, it delivers the helpless majority into the power of any gang that proclaims itself to be "the voice of society" and proceeds to rule by means of physical force, until deposed by another gang employing the same means.

If one begins by defining the good of individual men, one will accept as proper only a society in which that good is achieved and *achievable*. But if one begins by accepting "the common good" as an axiom and regarding individual good as its possible but not necessary consequence (not necessary in any particular case), one ends up with such a gruesome absurdity as Soviet Russia, a country professedly dedicated to "the common good," where, with the exception of a minuscule clique of rulers, the entire population has existed in subhuman misery for over two generations.

What makes the victims and, worse, the observers accept this and other similar historical atrocities, and still cling to the myth of "the common good"? The answer lies in philosophy—in philosophical theories on the nature of moral values.

There are, in essence, three schools of thought on the nature of the good: the intrinsic, the subjective, and the objective. The *intrinsic* theory holds that the good is inherent in certain things or actions as such, regardless of their context and consequences, regardless of any benefit or injury they may cause to the actors and subjects involved. It is a theory that divorces the concept of "good" from beneficiaries, and the concept of "value" from valuer and purpose—claiming that the good is good in, by, and of itself.

The *subjectivist* theory holds that the good bears no relation to the facts of reality, that it is the product of a man's

consciousness, created by his feelings, desires, "intuitions," or whims, and that it is merely an "arbitrary postulate" or an "emotional commitment."

The intrinsic theory holds that the good resides in some sort of reality, independent of man's consciousness; the subjectivist theory holds that the good resides in man's consciousness, independent of reality.

The *objective* theory holds that the good is neither an attribute of "things in themselves" nor of man's emotional states, but *an evaluation* of the facts of reality by man's consciousness according to a rational standard of value. (Rational, in this context, means: derived from the facts of reality and validated by a process of reason.) The objective theory holds that *the good is an aspect of reality in relation to man*—and that it must be discovered, not invented, by man. Fundamental to an objective theory of values is the question: Of value to whom and for what? An objective theory does not permit context-dropping or "concept-stealing"; it does not permit the separation of "value" from "purpose," of the good from beneficiaries, and of man's actions from reason.

Of all the social systems in mankind's history, *capitalism is the only system based on an objective theory of values.*

The intrinsic theory and the subjectivist theory (or a mixture of both) are the necessary base of every dictatorship, tyranny, or variant of the absolute state. Whether they are held consciously or subconsciously—in the explicit form of a philosopher's treatise or in the implicit chaos of its echoes in an average man's feelings—these theories make it possible for a man to believe that the good is independent of man's mind and can be achieved by physical force.

If a man believes that the good is intrinsic in certain actions, he will not hesitate to force others to perform them. If he believes that the human benefit or injury caused by such actions is of no significance, he will regard a sea of blood as of no significance. If he believes that the beneficiaries of such actions are irrelevant (or interchangeable), he will regard wholesale slaughter as his moral duty in the service of a "higher" good. It is the intrinsic theory of values that produces a Robespierre, a Lenin, a Stalin, or a Hitler. It is not an accident that Eichmann was a Kantian.

If a man believes that the good is a matter of arbitrary, subjective choice, the issue of good or evil becomes, for him, an issue of: *my feelings or theirs?* No bridge, understanding, or communication is possible to him. Reason is the only means of communication among men, and an objectively

perceivable reality is their only common frame of reference; when these are invalidated (*i.e.*, held to be irrelevant) in the field of morality, force becomes men's only way of dealing with one another. If the subjectivist wants to pursue some social ideal of his own, he feels morally entitled to force men "for their own good," since he *feels* that he is right and that there is nothing to oppose him but their misguided feelings.

Thus, in practice, the proponents of the intrinsic and the subjectivist schools meet and blend. (They blend in terms of their psycho-epistemology as well: by what means do the moralists of the intrinsic school discover their transcendental "good," if not by means of special, non-rational intuitions and revelations, *i.e.*, by means of their feelings?) It is doubtful whether anyone can hold either of these theories as an actual, if mistaken, conviction. But both serve as a rationalization of power-lust and of rule by brute force, unleashing the potential dictator and disarming his victims.

The objective theory of values is the only moral theory incompatible with rule by force. Capitalism is the only system based implicitly on an objective theory of values—and the historic tragedy is that this has never been made explicit.

If one knows that the good is *objective*—*i.e.*, determined by the nature of reality, but to be discovered by man's mind—one knows that an attempt to achieve the good by physical force is a monstrous contradiction which negates morality at its root by destroying man's capacity to recognize the good, *i.e.*, his capacity to value. Force invalidates and paralyzes a man's judgment, demanding that he act against it, thus rendering him morally impotent. A value which one is forced to accept at the price of surrendering one's mind, is not a value to anyone; the forcibly mindless can neither judge nor choose nor value. An attempt to achieve the good by force is like an attempt to provide a man with a picture gallery at the price of cutting out his eyes. Values cannot exist (cannot be valued) outside the full context of a man's life, needs, goals, and *knowledge*.

The objective view of values permeates the entire structure of a capitalist society.

The recognition of individual rights implies the recognition of the fact that the good is not an ineffable abstraction in some supernatural dimension, but a value pertaining to reality, to this earth, to the lives of individual human beings (note the right to the pursuit of happiness). It implies that the good cannot be divorced from beneficiaries, that men are not to be regarded as interchangeable, and that no man or tribe may attempt to achieve the good of some at the price of the

immolation of others.

The free market represents the *social* application of an objective theory of values. Since values are to be discovered by man's mind, men must be free to discover them—to think, to study, to translate their knowledge into physical form, to offer their products for trade, to judge them, and to choose, be it material goods or ideas, a loaf of bread or a philosophical treatise. Since values are established contextually, every man must judge for himself, in the context of his own knowledge, goals, and interests. Since values are determined by the nature of reality, it is reality that serves as men's ultimate arbiter: if a man's judgment is right, the rewards are his; if it is wrong, he is his only victim.

It is in regard to a free market that the distinction between an intrinsic, subjective, and objective view of values is particularly important to understand. The market value of a product is *not* an intrinsic value, not a "value in itself" hanging in a vacuum. A free market never loses sight of the question: Of value *to whom*? And, within the broad field of objectivity, the market value of a product does not reflect its *philosophically objective* value, but only its *socially objective* value.

By "philosophically objective," I mean a value estimated from the standpoint of the best possible to man, *i.e.*, by the criterion of the most rational mind possessing the greatest knowledge, in a given category, in a given period, and in a defined context (nothing can be estimated in an undefined context). For instance, it can be rationally proved that the airplane is *objectively* of immeasurably greater value to man (to man at his best) than the bicycle—and that the works of Victor Hugo are *objectively* of immeasurably greater value than true-confession magazines. But if a given man's intellectual potential can barely manage to enjoy true confessions, there is no reason why his meager earnings, the product of his effort, should be spent on books he cannot read—or on subsidizing the airplane industry, if his own transportation needs do not extend beyond the range of a bicycle. (Nor is there any reason why the rest of mankind should be held down to the level of his literary taste, his engineering capacity, and his income. Values are not determined by fiat nor by majority vote.)

Just as the number of its adherents is not a proof of an idea's truth or falsehood, of an art work's merit or demerit, of a product's efficacy or inefficacy—so the free-market value of goods or services does not necessarily represent their philosophically objective value, but only their *socially objective* value, *i.e.*, the sum of the individual judgments of all the

men involved in trade at a given time, the sum of what *they* valued, each in the context of his own life.

Thus, a manufacturer of lipstick may well make a greater fortune than a manufacturer of microscopes—even though it can be rationally demonstrated that microscopes are scientifically more valuable than lipstick. But—valuable to whom?

A microscope is of no value to a little stenographer struggling to make a living; a lipstick is; a lipstick, to her, may mean the difference between self-confidence and self-doubt, between glamour and drudgery.

This does not mean, however, that the values ruling a free market are *subjective*. If the stenographer spends all her money on cosmetics and has none left to pay for the use of a microscope (for a visit to the doctor) *when she needs it*, she learns a better method of budgeting her income; the free market serves as her teacher: she has no way to penalize others for her mistakes. If she budgets rationally, the microscope is always available to serve her own specific needs *and no more*, as far as she is concerned: she is not taxed to support an entire hospital, a research laboratory, or a space ship's journey to the moon. Within her own productive power, she does pay a part of the cost of scientific achievements, *when and as she needs them*. She has no "social duty," her own life is her only responsibility—and the only thing that a capitalist system requires of her is the thing that *nature* requires: rationality, *i.e.*, that she live and act to the best of her own judgment.

Within every category of goods and services offered on a free market, it is the purveyor of the best product at the cheapest price who wins the greatest financial rewards *in that field*—not automatically nor immediately nor by fiat, but by virtue of the free market, which teaches every participant to look for the *objective best* within the category of his own competence, and penalizes those who act on irrational considerations.

Now observe that a free market does not level men down to some common denominator—that the intellectual criteria of the majority do not rule a free market or a free society—and that the exceptional men, the innovators, the intellectual giants, are not held down by the majority. In fact, it is the members of this exceptional minority who lift the whole of a free society to the level of their own achievements, while rising further and ever further.

A free market is a *continuous process* that cannot be held still, an upward process that demands the best (the most rational) of every man **and** rewards him accordingly. While



the majority have barely assimilated the value of the automobile, the creative minority introduces the airplane. The majority learn by demonstration, the minority is free to demonstrate. The "philosophically objective" value of a new product serves as the teacher for those who are willing to exercise their rational faculty, each to the extent of his ability. Those who are unwilling remain unrewarded—as well as those who aspire to more than their ability produces. The stagnant, the irrational, the subjectivist have no power to stop their betters.

(The small minority of adults who are *unable* rather than unwilling to work, have to rely on voluntary charity; misfortune is not a claim to slave labor; there is no such thing as the *right* to consume, control, and destroy those without whom one would be unable to survive. As to depressions and mass unemployment, they are not caused by the free market, but by government interference into the economy.)

The mental parasites—the imitators who attempt to cater to what they think is the public's known taste—are constantly being beaten by the innovators whose products raise the public's knowledge and taste to ever higher levels. It is in this sense that the free market is ruled, not by the consumers, but by the producers. The most successful ones are those who discover new fields of production, fields which had not been known to exist.

A given product may not be appreciated at once, particularly if it is too radical an innovation; but, barring irrelevant accidents, it wins in the long run. It is in this sense that the free market is not ruled by the intellectual criteria of the majority, which prevail only at and for any given moment; the free market is ruled by those who are able to see and plan long-range—and the better the mind, the longer the range.

The economic value of a man's work is determined, on a free market, by a single principle: by the voluntary consent of those who are willing to trade him their work or products in return. This is the moral meaning of the law of supply and demand; it represents the total rejection of two vicious doctrines: the tribal premise and altruism. It represents the recognition of the fact that man is not the property nor the servant of the tribe, that *a man works in order to support his own life*—as, by his nature, he must—that he has to be guided by his own rational self-interest, and if he wants to trade with others, he cannot expect sacrificial victims, *i.e.*, he cannot expect to receive values without trading commensurate values in return. The sole criterion of what is commen-

surate, in this context, is the free, voluntary, uncoerced judgment of the traders.

The tribal mentalities attack this principle from two seemingly opposite sides: they claim that the free market is "unfair" both to the genius and to the average man. The first objection is usually expressed by a question such as: "Why should Elvis Presley make more money than Einstein?" The answer is: Because men work in order to support and enjoy their own lives—and if many men find value in Elvis Presley, they are entitled to spend their money on their own pleasure. Presley's fortune is not taken from those who do not care for his work (I am one of them) nor from Einstein—nor does he stand in Einstein's way—nor does Einstein lack proper recognition and support in a free society, on an appropriate intellectual level.

As to the second objection, the claim that a man of average ability suffers an "unfair" disadvantage on a free market—

Look past the range of the moment, you who cry that you fear to compete with men of superior intelligence, that their mind is a threat to your livelihood, that the strong leave no chance to the weak in a market of voluntary trade. . . . When you live in a rational society, where men are free to trade, you receive an incalculable bonus: the material value of your work is determined not only by your effort, but by the effort of the best productive minds who exist in the world around you. . . .

The machine, the frozen form of a living intelligence, is the power that expands the potential of your life by raising the productivity of your time. . . . Every man is free to rise as far as he's able or willing, but it's only the degree to which he thinks that determines the degree to which he'll rise. Physical labor as such can extend no further than the range of the moment. The man who does no more than physical labor, consumes the material value-equivalent of his own contribution to the process of production, and leaves no further value, neither for himself nor others. But the man who produces an idea in any field of rational endeavor—the man who discovers new knowledge—is the permanent benefactor of humanity. . . . It is only the value of an idea that can be shared with unlimited numbers of men, making all sharers richer at no one's sacrifice or loss, raising the productive capacity of whatever labor they perform. . . .

In proportion to the mental energy he spent, the man who creates a new invention receives but a small percentage of his value in terms of material payment, no matter what fortune he makes, no matter what millions he earns. But the man who works as a janitor in the factory producing that invention, receives an enormous payment in proportion to the mental effort that his job requires of *him*. And the same is true of all men between, on all levels of ambition and ability. The man at the top of the intellectual pyramid contributes the most to all those below him, but gets nothing except his material payment, receiving no intellectual bonus from others to add to the value of his time. The man at the bottom who, left to himself, would starve in his hopeless ineptitude, contributes nothing to those above him, but receives the bonus of all of their brains. Such is the nature of the "competition" between the strong and the weak of the intellect. Such is the pattern of "exploitation" for which you have damned the strong. (*Atlas Shrugged*)

And such is the relationship of capitalism to man's mind and to man's survival.

The magnificent progress achieved by capitalism in a brief span of time—the spectacular improvement in the conditions of man's existence on earth—is a matter of historical record. It is not to be hidden, evaded, or explained away by all the propaganda of capitalism's enemies. But what needs special emphasis is the fact that this progress was achieved by *non-sacrificial* means.

Progress cannot be achieved by forced privations, by squeezing a "social surplus" out of starving victims. Progress can come only out of *individual surplus*, *i.e.*, from the work, the energy, the creative over-abundance of those men whose ability produces more than their personal consumption requires, those who are intellectually and financially able to seek the new, to improve on the known, to move forward. In a capitalist society, where such men are free to function and to take their own risks, progress is not a matter of sacrificing to some distant future, it is part of the living present, it is the normal and natural, it is achieved as and while men live—and *enjoy*—their lives.

Now consider the alternative—the tribal society, where all men throw their efforts, values, ambitions, and goals into a tribal pool or common pot, then wait hungrily at its rim, while the leader of a clique of cooks stirs it with a bayonet in one hand and a blank check on all their lives in the other.

The most consistent example of such a system is the Union of Soviet Socialist Republics.

Half a century ago, the Soviet rulers commanded their subjects to be patient, bear privations, and make sacrifices for the sake of "industrializing" the country, promising that this was only temporary, that industrialization would bring them abundance, and Soviet progress would surpass the capitalistic West.

Today, Soviet Russia is still unable to feed her people—while the rulers scramble to copy, borrow, or steal the technological achievements of the West. Industrialization is not a static goal; it is a dynamic process with a rapid rate of obsolescence. So the wretched serfs of a planned tribal economy, who starved while waiting for electric generators and tractors, are now starving while waiting for atomic power and interplanetary travel. Thus, in a "people's state," the progress of science is a threat to the people, and every advance is taken out of the people's shrinking hides.

This was not the history of capitalism.

America's abundance was not created by public sacrifices to "the common good," but by the productive genius of free men who pursued their own personal interests and the making of their own private fortunes. They did not starve the people to pay for America's industrialization. They gave the people better jobs, higher wages, and cheaper goods with every new machine they invented, with every scientific discovery or technological advance—and thus the whole country was moving forward and profiting, not suffering, every step of the way.

Do not, however, make the error of reversing cause and effect: the good of the country was made possible precisely by the fact that it was not forced on anyone as a moral goal or duty; it was merely an effect; the cause was a man's right to pursue his own good. It is this right—not its consequences—that represents the moral justification of capitalism.

But this right is incompatible with the intrinsic or the subjectivist theory of values, with the altruist morality and the tribal premise. It is obvious which human attribute one rejects when one rejects objectivity; and, in view of capitalism's record, it is obvious against which human attribute the altruist morality and the tribal premise stand united: against man's mind, against intelligence—particularly against intelligence applied to the problems of human survival, *i.e.*, productive ability.

While altruism seeks to rob intelligence of its rewards, by asserting that the moral duty of the competent is to serve the

incompetent and sacrifice themselves to anyone's need—the tribal premise goes a step further: it denies the existence of intelligence and of its role in the production of wealth.

It is morally obscene to regard wealth as an anonymous, tribal product and to talk about "redistributing" it. The view that wealth is the result of some undifferentiated, collective process, that we all did something and it's impossible to tell who did what, therefore some sort of equalitarian "distribution" is necessary—might have been appropriate in a primordial jungle with a savage horde moving boulders by crude physical labor (though even there someone had to initiate and organize the moving). To hold that view in an industrial society—where individual achievements are a matter of public record—is so crass an evasion that even to give it the benefit of the doubt is an obscenity.

Anyone who has ever been an employer or an employee, or has observed men working, or has done an honest day's work himself, knows the crucial role of ability, of intelligence, of a focused, competent mind—in any and all lines of work, from the lowest to the highest. He knows that ability or the lack of it (whether the lack is actual or volitional) makes a difference of life-or-death in any productive process. The evidence is so overwhelming—theoretically and practically, logically and "empirically," in the events of history and in anyone's own daily grind—that no one can claim ignorance of it. Mistakes of this size are not made innocently.

When great industrialists made fortunes on a *free* market (*i.e.*, without the use of force, without government assistance or interference), they *created* new wealth—they did not take it from those who had *not* created it. If you doubt it, take a look at the "total social product"—and the standard of living—of those countries where such men are not permitted to exist.

Observe how seldom and how inadequately the issue of human intelligence is discussed in the writings of the tribal-statist-altruist theoreticians. Observe how carefully today's advocates of a mixed economy avoid and evade any mention of intelligence or ability in their approach to politico-economic issues, in their claims, demands, and pressure-group warfare over the looting of "the total social product."

It is often asked: Why was capitalism destroyed in spite of its incomparably beneficent record? The answer lies in the fact that the lifeline feeding any social system is a culture's dominant philosophy and that capitalism never had a philosophical base. It was the last and (theoretically) incomplete

product of an Aristotelian influence. As a resurgent tide of mysticism engulfed philosophy in the nineteenth century, capitalism was left in an intellectual vacuum, its lifeline cut. Neither its moral nature nor even its political principles had ever been fully understood or defined. Its alleged defenders regarded it as compatible with government controls (*i.e.*, government interference into the economy), ignoring the meaning and implications of the concept of *laissez-faire*. Thus, what existed in practice, in the nineteenth century, was not pure capitalism, but variously mixed economies. Since controls necessitate and breed further controls, it was the statist element of the mixtures that wrecked them; it was the free, capitalist element that took the blame.

Capitalism could not survive in a culture dominated by mysticism and altruism, by the soul-body dichotomy and the tribal premise. No social system (and no human institution or activity of any kind) can survive without a moral base. On the basis of the altruist morality, capitalism had to be—and was—damned from the start.<sup>5</sup>

For those who do not fully understand the role of philosophy in politico-economic issues, I offer—as the clearest example of today's intellectual state—some further quotations from the *Encyclopaedia Britannica's* article on capitalism.

Few observers are inclined to find fault with capitalism as an engine of production. Criticism usually proceeds either from *moral* or *cultural* disapproval of certain features of the capitalist system, or from the short-run vicissitudes (crises and depressions) with which long-run improvement is interspersed. [Italics mine.]

The "crises and depressions" were caused by government interference, not by the capitalist system. But what was the nature of the "moral or cultural disapproval"? The article does not tell us explicitly, but gives one eloquent indication:

Such as they were, however, both tendencies and realizations [of capitalism] bear the unmistakable stamp of the businessman's interests and still more the businessman's type of mind. Moreover it was not only policy but the philosophy of national and individual life, the scheme of cultural values, that bore that stamp. Its materialistic utilitarianism, its naive confidence in prog-

<sup>5</sup> For a discussion of the philosophers' default in regard to capitalism, see the title essay in my book *For the New Intellectual*.

ress of a certain type, its actual achievements in the field of pure and applied science, the temper of its artistic creations, may all be traced to *the spirit of rationalism* that emanates from the businessman's office. [Italics mine.]

The author of the article, who is not "naive" enough to believe in a capitalistic (or *rational*) type of progress, holds, apparently, a different belief:

At the end of the middle ages western Europe stood about where many underdeveloped countries stand in the 20th century. [This means that the culture of the Renaissance was about the equivalent of today's Congo; or else, it means that people's intellectual development has nothing to do with economics.] In underdeveloped economies the difficult task of statesmanship is to get under way a cumulative process of economic development, for once a certain momentum is attained, further advances appear to follow more or less automatically.

Some such notion underlies every theory of a planned economy. It is on some such "sophisticated" belief that two generations of Russians have perished, waiting for *automatic* progress.

The classical economists attempted a tribal justification of capitalism on the ground that it provides the best "allocation" of a community's "resources." Here are their chickens coming home to roost:

The market theory of resource allocation within the private sector is the central theme of classical economics. The criterion for allocation between the public and private sectors is formally the same as in any other resource allocation, namely that the community should receive equal satisfaction from a marginal increment of resources used in the public and private spheres. . . . Many economists have asserted that there is substantial, perhaps overwhelming, evidence that total welfare in capitalist United States, for example, would be increased by a reallocation of resources to the public sector—more schoolrooms and fewer shopping centers, more public libraries and fewer automobiles, more hospitals and fewer bowling alleys.

This means that some men must toil all their lives without adequate transportation (automobiles), without an adequate number of places to buy the goods they need (shopping

centers), without the pleasures of relaxation (bowling alleys) —in order that other men may be provided with schools, libraries, and hospitals.

If you want to see the ultimate results and full meaning of the tribal view of wealth—the total obliteration of the distinction between private action and government action, between production and force, the total obliteration of the concept of “rights,” of an individual human being’s reality, and its replacement by a view of men as interchangeable beasts of burden or “factors of production”—study the following:

Capitalism has a bias against the public sector for two reasons. First, all products and income accrue [?] initially to the private sector while resources reach the public sector through the painful process of taxation. Public needs are met only by sufferance of consumers in their role as taxpayers [what about *producers?*], whose political representatives are acutely conscious of their constituents’ tender feelings [!] about taxation. That people know better than governments what to do with their income is a notion more appealing than the contrary one, that people get more for their tax money than for other types of spending. [By what theory of values? By whose judgment?] . . .

Second, the pressure of private business to sell leads to the formidable array of devices of modern salesmanship which influence consumer choice and bias consumer values toward private consumption . . . [This means that your desire to spend the money you earn rather than have it taken away from you, is a mere *bias.*] Hence, much private expenditure goes for wants that are not very urgent in any fundamental sense. [Urgent—to whom? Which wants are “fundamental,” beyond a cave, a bearskin, and a chunk of raw meat?] The corollary is that many public needs are neglected because these superficial private wants, artificially generated, compete successfully for the same resources. [*Whose resources?*] . . .

A comparison of resource allocation to the public and private sectors under capitalism and under socialist collectivism is illuminating. [It is.] In a collective economy all resources operate in the public sector and are available for education, defense, health, welfare, and other public needs without any transfer through taxation. Private consumption is restricted to the claims that are *permitted* [by whom?] against the *social product*, much as public services in a capitalist economy



are limited to the claims permitted against the private sector. [Italics mine.] In a collective economy public needs enjoy the same sort of built-in priority that private consumption enjoys in a capitalist economy. In the Soviet Union teachers are plentiful, but automobiles are scarce, whereas the opposite condition prevails in the United States.

Here is the conclusion of that article:

Predictions concerning the survival of capitalism are, in part, a matter of definition. One sees everywhere in capitalist countries a shifting of economic activity from the private to the public sphere. . . . At the same time [after World War II] private consumption appeared destined to increase in communist countries. [Such as the consumption of wheat?] The two economic systems seemed to be drawing closer together by changes converging from both directions. Yet significant differences in the economic structures still existed. It seemed reasonable to assume that the society which invested more in people would advance more rapidly and inherit the future. In this important respect capitalism, in the eyes of some economists, labours under a fundamental but not inescapable disadvantage in competition with collectivism.

The collectivization of Soviet agriculture was achieved by means of a government-planned famine—planned and carried out deliberately to force peasants into collective farms; Soviet Russia's enemies claim that fifteen million peasants died in that famine; the Soviet government admits the death of seven million.

At the end of World War II, Soviet Russia's enemies claimed that thirty million people were doing forced labor in Soviet concentration camps (and were dying of planned malnutrition, human lives being cheaper than food); Soviet Russia's apologists admit to the figure of twelve million people.

This is what the *Encyclopaedia Britannica* refers to as "investment in people."

In a culture where such a statement is made with intellectual impunity and with an aura of moral righteousness, the guiltiest men are not the collectivists; the guiltiest men are those who, lacking the courage to challenge mysticism or altruism, attempt to bypass the issues of reason and morality and to defend the only rational and moral system in mankind's history—capitalism—on any grounds other than rational and moral.