

Capitalism

Daron Acemoglu

» *Capitalism has run its course, as we focus on the wrong things such as private ownership of capital. It's time to abandon the concept and concentrate on political and economic incentives forged by the broad complex of institutions.*

With roots extending back to Dutch, French, and English thinkers of the seventeenth and eighteenth centuries, the notion of capitalism has an impeccable intellectual pedigree and has been a mainstay of some of the most important philosophers of the nineteenth century, including Adam Smith, David Ricardo, Pierre-Joseph Proudhon, and Karl Marx. Despite this impressive historic cache, it is high time for academics to abandon it (and perhaps polemicists might one day follow). How could a notion that is so steeped in ideology be useful for academic discourse? For some, it is an economic system rooted in the crudest form of exploitation, always pregnant with injustice and inequality. For others, it is the unadulterated ideal of efficiency and dynamism, the best recipe for a fair society.

In fact, the definition of capitalism is full of contradictions. The most common is “an economic system based on private ownership of the means of production in their operation for profit.” But other definitions make reference

D. Acemoglu (✉)
MIT, Cambridge, MA, USA

to the “free market.” For example, the *Oxford Dictionary of Economics* defines it as “an economic system in which private capital or wealth is used for the production and distribution of goods, and prices are determined mainly in a free market,” while the *Merriam-Webster Dictionary* puts it as “an economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and prices, production, and the distribution of goods that are determined mainly by competition in a free market.” The “free market” is also a central tenet of Milton Friedman’s definition of capitalism in *Capitalism and Freedom* and Ayn Rand’s conception in *Capitalism: The Unknown Ideal*. The connotation, or perhaps even the exact equivalence, of the term free market with “perfectly competitive markets,” notwithstanding other definitions, makes monopoly power and profits a defining aspect of capitalism (including in Marx’s *Capital*, which christened “The General Law of Declining Profit” as a key characteristic of the capitalist system, and Sweezy and Baran’s *Monopoly Capital*). But there isn’t even agreement as to whether the presence of monopoly profits is a sin or a virtue. Though it is the former in many Marxist analyses, it is the driver of innovation and technological progress in Schumpeter’s classic *Democracy, Capitalism, and Socialism*.

But most worrying is that emphasis on the ownership of the means of production, and particularly of capital, makes us focus on the wrong things. Is it useful to classify countries with reference to whether there is private ownership of capital? According to this demarcating line, both Egypt under Hosni Mubarak and social democratic Sweden are capitalist economies.

The root problem here is that for most of the problems we care about—how much shared prosperity, economic growth, technological progress, or social mobility a society will generate—whether there is (de jure) private ownership of capital is not much relevant. In *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, James Robinson and I have argued that many societies with different appearances have similar extractive economic institutions, which create a set of formal and informal rules to the advantage of politically powerful groups and at the expense of the rest of society. These extractive institutions also fail to generate incentives and opportunities for technological progress and sustained economic growth. In this respect, the extractive institutions of Mexico’s “capitalist” economy have much more in common with North Korea’s rigid communist system than with Swiss “capitalism.”

Whether economic institutions are extractive, or at the other extreme inclusive, critically depends on political institutions. The notion of capitalism, by fixating on purely economic relations such as the ownership of capital and the means of production, misdirects our focus away from the *political*

economy—and politics—of the economic arrangements a society has ended up with.

It's time to abandon this notion and concentrate on political and economic incentives forged by the broad complex of institutions.