

*Le Président*

Jean-Paul FITOUSSI a le plaisir de vous inviter le :

Mardi 9 juin 2009  
De 17h00 à 19h00  
Sciences Po, Amphi Boutmy  
27 rue Saint-Guillaume  
75007 Paris

à la conférence,

« Capitalism and Confusion »

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A recent public opinion poll in the US asking "Which would you prefer: socialism or capitalism?" yielded 50/50 responses. Capitalism has been largely discredited due to the food and financial crises of 2008, which are ongoing today. People are thinking: "Maybe socialism is not so bad after all." In popular opinion, it is more and more widely associated with universal health coverage, pension benefits, poverty relief.

That being said, the Soviet economy can hardly serve as a model for any country today. Market and economic transactions are necessary qualifications of any functioning economic system. Individual empowerment based on private ownership is the archetypal feature of capitalism. So we do have a fairly clear definition.

However, Adam Smith, whom we consider to be the founding father of market economy theory, never used the term "capitalism". Nor does he put forth a theory of the sufficiency of the market economy. Smith has a reputation of being the champion of the pursuit of self-interest by all human beings. In fact, Smith definitely did not take that view and argued for the importance of the motivation of generosity.

And yet he is continually cited by the proponents of the now outdated, egoistic version of capitalism. See the sarcastic rendering of this paradox in Stephen Leacock's limerick:

*Adam, Adam, Adam Smith  
Listen what I charge you with!  
Didn't you say  
In a class one day  
That selfishness was bound to pay?  
Of all doctrines that was the Pith.  
Wasn't it, wasn't it, wasn't it, Smith?*

The famous phrase from *Wealth of Nations* (26-7), „It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self-love, and never talk to them of our own necessities but of their advantages”, has been quoted over and over and the reading of Smith's entire theory is too often confined to those lines. But even they themselves do not imply a claim of the adequacy of self-interest as the sole driver of economic success.

In his *Theory of Moral Sentiments* (IV-2), Smith writes: "Humanity, justice, generosity, and public spirit, are the qualities most useful to others." He acknowledged from the outset the important role of non-profit value. Going beyond the simple tasks of regulation and control, Smith drew attention to the State's positive actions in support of the well-being and developing the capabilities of the people. The state has supporting functions in safeguarding and promoting human life and freedom. Smith was deeply concerned about poverty, illiteracy and deprivation which might remain *despite* a very well functioning market economy. He was a defender of the role of the State in doing things that the market failed to do such as universal education and poverty relief.

Smith was profoundly uninterested in nomenclature and deeply interested in content. He was uninvolved in worrying about insignnia. The question should not be: how are we going to call it? But: what do we want to achieve? Let us follow his example and not concern ourselves with preconceived nomenclature. Today, our system has shown its vulnerability, especially in cases of mistrust arising in the credit system. We today should not seek a „new capitalism”. It does not matter much what we call it. We need to deal with the current vulnerability and instability. The instabilities can be tackled not by faith but by choice, open-minded pragmatic choice!

In the long term, we must acknowledge the need of the State to promote healthcare as a part of its diverse obligations. Particularly in the US, which is the only rich country in the world without universal healthcare organized by the State.

Kenneth Arrow shows that there are problems of asymmetry of information in the market of health care and health insurance. A patient often has very little knowledge of the medical characteristics of his illness and therefore it is difficult for him to choose the best treatment.

In this logic, the private insurer has good profit-based incentives to deny health insurance to anyone who has a probability of getting sick. So what's the point?

A wrong belief, once established, is very difficult to dethrone. See the threat of „socialized medicine” in the US. Misperceptions abound in the US about the workings of universal healthcare in European countries like for instance: “you cannot choose your doctor”.

Let us bear in mind the opening words of Adam Smith's *Theory of Moral Sentiments*:

*“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.”*

We don't want to kill the market economy but simply recognize the role of the State in ensuring its success. Let us recognize that the standard of living has increased not only because of GDP growth but also because of universal healthcare and public education. The role of market economy does not contradict the role of the State.

In Smith's case, the whole point of his *Theory of Moral Sentiments* published in 1759 was to make it possible for us to work *for* each other instead of against each other. Even today, this approach requires pragmatically rethinking everything we have done wrong.