

[Davos Capitalism: Adam Smith's Nightmare](#)

by [Michael Miller](#)

25th March 2009

In *The Wealth of Nations*, Adam Smith warned, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." The shenanigans of business leaders over the last year, which led to a serious loss of faith in markets and a call for more government intervention, sadly proves Smith's point. Unfortunately, the problem runs deeper than Fannie Mae, Freddie Mac, Merrill Lynch, AIG or whatever company has grabbed the headlines of the day.

Smith, who published [his landmark work](#) in 1776, warned of corporate collusion, but we're experiencing something much more insidious -- not just businesses, but business and government and a host of others all meeting, and colluding, at the posh Swiss resort town of Davos. It is Adam Smith's nightmare.

This isn't free market capitalism. It's Davos capitalism, a managerial capitalism run by an enlightened elite--politicians, business leaders, technology gurus, bureaucrats, academics, and celebrities--all gathered together trying to make the economic world smarter or more humane. It might even be, as Bill Gates famously said last year at Davos, a more ["creative" capitalism](#).

The late Samuel Huntington coined the term [Davos Man](#) -- a soulless man, technocratic, nation-less, and cultureless, severed from reality. The modern economics that undergirded Davos capitalism is equally soulless, a managerial capitalism that reduces economics to mathematics and separates it from human action and human creativity.

And we looked up to Davos Man. Who wouldn't be impressed by the gatherings at the annual meeting of the World Economic Forum at Davos, a Swiss ski resort? Sharply dressed, eloquent, rich, famous, Republican, Democrat, Tory, Labour, Conservative, Socialist, highly connected, powerful and ever so bright.

Then, when the whole managerial economy collapsed, the managers and technocrats lost faith in markets. But they did not lose faith in themselves, and now they want us to entrust even more of the economy to them.

If they get away with it, they'll have a fundamental confusion to thank: Davos capitalism has become equated with free markets. While this is a thoroughly bi-partisan affair with roots stretching back many decades, much of the current confusion stems from the work of the New Democrats and New Labour of the early 1990s. The Soviet Union had collapsed and Keynesian economies in Europe and the United States had failed. It was politically unacceptable to use the language of centralized planning, so astute politicians like Bill Clinton and Tony Blair used market-friendly language. They spoke about a smarter capitalism, managed globalization, the government working with business, and public/private partnerships. They used market language while pursuing managerial capitalism.

It was a beautiful bait and switch, a political masterstroke, and many free marketers went along for the ride. Consequently, in the minds of many, economic freedom has failed. Indeed, it has not. The crucial first step to recovery is to describe the problem aright.

The allure of Davos Capitalism is understandable: bright people solving our problems, ending global poverty and the vicissitudes of the free market. It's the dream, in T.S. Eliot's words, "of systems so perfect that no one will need to be good." No such system exists. Morality is indispensable. Nor would it have worked even if the men and women gathering at Davos truly had been our best and brightest, for no group is good or smart or prophetic enough to manage centrally the billions of opportunities and choices that comprise the market.

We tend to think of a market as an inanimate force and economics as akin to alchemy, where only a few brilliant insiders know what is going on. But markets are not inanimate; they are relationships between people, and the technocratic schemes of Greenspan and Paulson and Geithner and Bernanke and the Clinton-Bush-Obama administrations' attempt to manage the economy has made it clear that the managers know little more than we do. We have tried the illusory third way -- it is called Davos -- and it has failed.

There was an alternative, but it wasn't tried. Had markets been allowed to operate freely, they would have reacted to and reflected reality; instead, government policy shielded companies and individuals from the consequences of our actions, and in so doing perpetuated an adolescent, me-first society.

The goal of economic liberty is not a society of producers and consumers in equilibrium. Economic liberty is important because it creates space for people to live out their freedom, take care of their families, and fulfill their responsibilities. Economic freedom is necessary because it allows people to take risks and create material prosperity for a flourishing life. Economic liberty is needed because without it there can be no political liberty. Both require individual virtue and a moral culture for sustenance. Neither an adolescent culture following its whims, nor a soulless culture severed from its historical roots, from the sacrifices and struggles of our fathers whose spirit and dedication to freedom made it possible, is adequate.

Lord Acton wrote, "Liberty is the delicate fruit of a mature civilization." We must begin anew the work of rebuilding the moral culture -- one committed to truth, responsibility and a spiritual depth that the Davos Man cannot provide. Our liberty depends on it.

Michael Miller is the Director of Programs at the Acton Institute and also oversees Acton's international work. He received his bachelor's degree from the University of Notre Dame, has an MA from Nagoya University's Graduate School of International Development (Japan), an MA in philosophy from Franciscan University, and an MBA in International Management from Thunderbird (The American Graduate School of International Management).