Valentine's Day: Hard-Hearted Capitalism

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This article is the eleventh in a year-long series about economics and holidays.

February is named for Juno Februa, the Roman queen goddess in the fever of love. The earth is wakening to spring, fertility, new life, which begins with love and romance, at least among humans. Although February 14th is Valentine's Day, named for one of several early Christian martyrs by that name, there is no known connection between any of these martyrs and romantic love, so it is the Roman tradition for the entire month that reaches "fever" pitch on Valentine's Day.

It's hard to find much economics in this light-hearted, romantic holiday, celebrated mainly by lovers and children. Economics is not light-hearted. If anything, it appears to be hard-hearted. In 1987, economist Alan Blinder wrote a book called *Hard Heads, Soft Hearts.* He argued that the Republicans were the party of hard heads, hard hearts, and the Democrats were the party of soft heads, soft hearts. What we needed, he believed, was hard heads (practicality and efficiency) and soft hearts (compassion).

A policy or a party that affirms hard heads, hard hearts, is focused on economic incentives. Profits encourage investment, innovation and risk taking. Higher wages attract more and better workers into jobs and encourage more productivity. If we make it too easy for people to get by with little effort, productivity and output will decline and we will all be worse off. Recent studies of unemployment and unemployment benefits seem to affirm this view of how people behave. Extended unemployment benefits, low as they are, encourage people to wait longer. Typical workers find a job just as their extended unemployment benefits are running out. True, there are still more than six unemployed workers for every job opening right now, but competition for jobs will ensure that the workers who are hired are productive, hard-working, and well-qualified. It is, after all, competition that drives each of us to be our best. That doesn't mean that we can't make some provision for those who are unable to work—the elderly, children, and the disabled—but we need to be careful to limit benefits to those who are genuinely unable to make some contribution to productivity, output and growth.

A policy that affirms soft heads and soft hearts puts more emphasis on quality of life, interdependence, and sharing in one another's gains and losses, risks and rewards. If that sounds like socialism, it is and it isn't. Socialism implies public ownership of the means of production, and very few Americans would support that idea. A more accurate term for a system with more extensive transfer programs or social safety nets is a social welfare state. Most European countries would fit that description. They have high unemployment rates (although not much higher than the United States right now) and generous social welfare programs, including public pensions, day care, health care, and unemployment benefits. They also pay higher taxes to support those welfare programs. Surprisingly, most Western European countries are still quite productive in terms of output, investment, and economic growth.

The choices that a nation makes along the hard-soft continuum are culturally determined, not dictated by economics. It's not the inherent heartlessness of capitalism but the values of citizens in capitalistic countries that determine each country's social policies. Americans historically have emphasized personal freedom, independence, responsibility, and self-reliance as cultural values, and these values are reflected in our limited social welfare programs. We admire those who work hard (a trait we share with the Japanese) and make cultural icons of those who are financially successful in a highly competitive environment. We may argue for our particular brand of social policy in economic terms of competition, incentives, and productivity, but these arguments are based on certain kinds of behavioral response to economic incentives that are at least partly determined by culture.

Even the American emphasis on growth of output, productivity, and innovation as the primary measures of economic performance is driven by cultural values. Other societies have chosen to emphasize different economic values such as sustainability, leisure, and equality, even if that choice means a slower rate of growth of output. China, which has become more capitalistic than most Western countries, has made a sudden and dramatic shift recently toward environmental responsibility even at the cost of output and economic growth. European workers take some of their compensation in more extended vacation time. Canada has managed to combine a social welfare state with a highly productive economy. While its per capita GDP is somewhat lower, Canada has a higher life expectancy at birth and a larger share of income accruing to the lowest 20% of households than the United States.

It's easy to confuse the nature of a market economy with the way it is embodied in one's own culture. A market economy simply means that productive resources are largely privately owned and most economic decisions are made by individuals pursuing their own self-interest. That's true of almost all economies in the world at present. The share of decisions made collectively through government can vary, and so can the degree of protection extended to all citizens against risks like disasters, medical crises, disability and unemployment. Market economies are not inherently hard-hearted or soft-hearted. Their heads are usually hard, but the hearts are shaped as hard or soft by the culture of the nation in which the market goes about its daily task of assuring food on our tables, roofs over our heads, and opportunities to contribute and to share in the wealth of a productive economy.