Capitalism and Sustainability

My favorite Herb Stein quote is, “If something cannot go on forever, it will stop.” That truism is more obvious to some than others. This week [Al Gore took aim at “unsustainable” capitalism](http://www.reuters.com/article/2012/02/16/sustainablecapitalism-idUSL5E8DG45E20120216). The bright side is that even Al Gore concedes that “capitalism is fundamentally superior to any other system for organizing economic activity…” He’s just looking to tweak capitalism with new rules. Mr. Gore and Mr. David Blood believe that firms should focus less attention on quarterly profits and more on long term practices.

In a free capitalist society, everyone is entitled to their opinion as to how businesses can best maximize their return to investors over time. Better yet, capitalism allows people to put their own money where their mouths are. If Mr. Gore has truly found a formula to increase the long term profitability of firms, bully for him. I hope he makes a lot of money betting on firms that adopt his philosophy. I love it when firms innovate and improve what they are doing. Allowing Mr. Gore and Mr. Bloom to enforce their opinions on all businesses by government regulation is another story. Capitalism doesn’t need the government to weed out short sighted behavior. Just reread Mr. Stein’s quote above.

For those looking for a glimpse of why capitalism is not only sustainable economically, but environmentally, In this week’s WSJ, [Terry Anderson gives yet more evidence that capitalism is the best way to engage in environmental sustainability](SB10001424052970204369404577209062592063958). That is not to say that unsustainable economic practices don’t exist in the private sector in the short run. They do and are weeded out. However, the problem of sustainability is most acute when applied to the public sector.

The poster children for unsustainable economic activity are federal, [state, and local unfunded pension schemes.](http://www.aei.org/article/economics/retirement/pensions/understanding-the-true-cost-of-state-and-local-pensions/)  Can you point to any company with trillions of dollars in unfunded liability? Nope, any such firm would have gone bankrupt long before they could have accumulated those debts. Only government can threaten the utter destruction of the economy by accumulating so much current and future debt that future economic production comes to a standstill. Governments engage in pension policies and pyramid schemes that are patently illegal if tried by a private sector company.

There are too many federal, state, and local politicians who are asleep at the wheel when it comes to the public sector balance sheet. Their current pension liabilities are anything but sustainable. This doesn’t stop public employees from asking for more. [Chicago teachers are asking for 30% raises over the next two years](http://www.chicagotribune.com/news/education/ct-met-ctu-proposals-0217-20120217,0,6829485.story). Why not give them a 50% raise or a 1,000% raise? Aren’t public coffers infinite? Alas, even governments (see Greece, Italy, Spain, Ireland, and Portugal) find out that things that cannot go on forever must come to an end. And Mr. Gore thinks capitalism is unsustainable….