Capitalism under siege.

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Its PR is always bad. No system based on the profit motive (a.k.a. `greed') is a crowd pleaser.
IT CAN BE SAID OF CAPITALISM WHAT WINSTON CHURCHILL once said of democracyit is the worst possible system, except for all the others. We might ponder this now, while commentators are denouncing American capitalism. Increasingly, they find it heartless. Companies are obsessed with "the bottom line." They don't care a whit for workers. Corporate managers are driven by their own stock options. The whole system is cruel and chaotic. Much of this indictment is true; but it is not the whole truth or the most important truth.

Ask this: what can we expect from our economy? Probably most Americans would answer (a) jobs, (b) rising incomes and (c) security. By these measures, our system does fairly well. Consider. Between 1985 and 1995, it created 18 million jobs. Living standards? They're slowly rising. Between 1979 and 1989, at least 75 percent of households had income gains, concludes a study by economist Richard Burkhauser of Syracuse University. (As Burkhauser argues, income comparisons need to match similar spots in the business cycle to avoid the distortions of uneven unemployment. Both 1979 and 1989 were business-cycle "peaks.")

Economic security--or rather the lack of it--is the latest criticism of capitalism. Even here, though, the record is better than believed. In 1995, job losers (people who got fired) constituted only about 2 percent of all workers, reports the Council of Economic Advisers. Even at its recent peak in the 1981-1982 recession, job losers were only about 4 percent of total employment.

Capitalism has always had a bad image. No system based on the profit motive (a.k.a. "greed") is a crowd pleaser. Some present complaints reflect simple misinformation. For example, Americans' economic anxieties are now said to be exceptionally high. Not so. Polls do not "support the premise that the public is 'scared as hell'," write Frank Newport and Lydia Saad of the Gallup poll. In March, 49 percent of Americans rated themselves better off financially than a year earlier; that rating is as high as any since 1976.

But the largest source of misunderstanding about capitalism is the belief that most companies don't care about long-term relationships. They're eager to fire workers, shut plants and ditch suppliers in an instant to improve profits. Human values recede before rampant "short-termism." As with most stereotypes, this one is often true and sometimes tragically so. Just as often, though, the opposite is true, as two recent business books show.

In "The Loyalty Effect," management consultant Frederick Reichheld demonstrates why many successful companies cultivate long-term relations with customers, suppliers and workers. For example, customer retention is critical. Old customers do more business than new, have lower sales costs and provide referrals for new customers. At one insurance company, 55 percent of new business came from existing customers. In "The Connected Corporation," consultant Jordan Lewis makes a similar argument for the value of semipermanent "alliances" between companies and their suppliers: "Between 20 and 30 percent of the savings in successful customer-supplier alliances comes solely from the efficiencies of cooperation [Changing suppliers frequently] adds costs through higher overheads, lost learning curves and less efficient investments by suppliers."

The common theme here is that many enduring business connections maximize efficiency. The existence of these relationships doesn't depend on managers' compassion. The same logic explains why career jobs haven't vanished. Companies need stable and skilled work forces, precisely because excessive turnover raises recruitment and retraining costs andmore importantdisrupts the continuity often required for efficient production, sales and service. Little wonder that job tenure is fairly stable. In 1983, 38 percent of men over 25 had been with their current company 10 years or more; by 1991, it was 36 percent.

The present intellectual siege of American capitalism stems less from its defects than from popular illusions about it. For years, corporate executives promoted the idea (and most Americans accepted it) that modern management could reconcile social demands for increasing security with capitalism's traditional demands for profits and efficiency. In practice, that wasn't so easy. The line between total security and economic stagnation turned out to be thin and easily crossed. Profitability declined. As a return on assets, pretax profits eroded from 10.1 percent in the 1950s to 6.6 percent in the 1980s, reports the Economic Policy Institute.

The result is that American capitalism now presents us with many contradictory images. It is increasingly preoccupied with cost-cutting to meet competition--from new technologies, the deregulation of once protected industries and the emergence of new rivals. But it hasn't abandoned long-term relationships (with workers, customers, suppliers), precisely because these are often efficient. It increasingly focuses on maximizing profits. But this may not presage a new class war, because the clamor for higher profits often comes from managers of pension funds and mutual funds, whose constituents are mainly middle-class.

Just about any criticism made of this system is true in some cases or at some times. Given the chance, many companies will gouge customers. Many business decisions are driven by ego or greed. Some giant mergers make no economic sense; they're dictated mostly by personal ambition. At some corporations there is unending mismanagement and waste. Bosses make mistakes; their workers often suffer the consequences. Companies can discard workers, plants or suppliers with astonishing abruptness and insensitivity. It's not a pretty picture.

And it's incomplete. American capitalism is a structure of rewards and disciplines whose effects need to be judged in their totality. The same freedom that allows errors and excess also encourages new products and efficiencies. The virtues and vices cannot be entirely disentangled, though critics often suppose they can. This self-serving assumption justifies a fashionable ridicule that overlooks the larger reality of impressive social good.

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