

Personal Freedom and the Moral Case for Capitalism

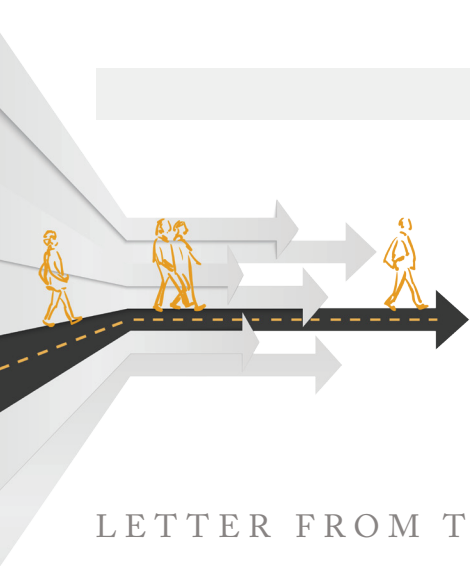
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essays from

The Human Prosperity Project

HOOVER INSTITUTION
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SOCIALISM AND FREE-MARKET CAPITALISM: THE HUMAN PROSPERITY PROJECT

AN ESSAY SERIES FROM THE HOOVER INSTITUTION

LETTER FROM THE EDITORS

With this issue, scholars at the Hoover Institution are launching a program designed to evaluate free-market capitalism, socialism, and hybrid systems to determine how well the various governmental and economic forms promote general well-being and prosperity. The project is particularly important and timely, given recent interest in policies that are radical from a US historical perspective, some of which are advocated by political leaders and presidential candidates.

Free-market capitalism with private ownership and market-determined allocation of goods and services is often credited with generating economic growth and high average income, but its critics argue that a market-based economy creates significant inequality and does not help the poor enough. Socialism and its variants, which couple government ownership of much of the means of production with substantial centrally determined allocation, is championed as being more benevolent than free-market capitalism.

The goal of this project is to provide objective and scholarly analyses of free-market capitalism, socialism, and hybrid systems and to provide evidence on the effectiveness of the various systems on outcomes that affect prosperity and well-being. The papers will be written by renowned experts in their specific topics and will be released periodically over the next years. The broad range of issues will include strictly economic subjects, like the impact of economic form on incomes and economic growth; important social goals, like providing broad access to quality medical care, maintaining a just and sensible immigration policy, and sustaining our environment with rational priorities; and political consequences of these systems, like ensuring individual liberty and freedom, enhancing strategic relations with other countries, and promoting long-term peace.

It is our hope that both the scope and quality of the research will shed light on how the choice of government and economic structure affects the overall quality of life.

Scott W. Atlas and Edward P. Lazear
Editors



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The Humane Side of Capitalism

By Russell Roberts, *John and Jean De Nault Research Fellow, Hoover Institution*



A lot of people reject capitalism because they see the market process at the heart of capitalism—the decentralized, bottom-up interactions between buyers and sellers that determine prices and quantities—as fundamentally immoral. After all, say the critics, capitalism unleashes the worst of our possible motivations, and it gets things done by appealing to greed and self-interest rather than to something nobler: caring for others, say. Or love. Adam Smith said it well:

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 own self-interest.

Capitalism, say its critics, encourages grasping, exploitation, and materialism. As Wordsworth put it: “Getting and spending, we lay waste our powers.” In this view, capitalism degrades our best selves by encouraging us to compete, to get ahead, to win in business, to have a nicer car and house than our neighbors, and to always look for higher profits and advantages. In the great rat race of the workplace, we all turn into rats. Is it any wonder so many want to kill off capitalism and replace it with something more just, more fair, more humane?

This urge to try something else seems to be on the rise. In a 2019 Gallup poll, 43 percent of respondents said socialism would be good for the country. A self-avowed socialist, Bernie Sanders, came close to winning the Democratic nomination for president in 2020, finishing a close second as he had four years earlier.

One answer to this increased taste for socialism is that socialism has to be specified in order to compare it to capitalism. I think a lot of people are attracted to socialism because they believe it means capitalism without the parts they don’t like. How to get there from here is left unspecified. A second answer is that the American economic system is, in fact, a hybrid of capitalism and socialism. Some parts of the American economy are pretty free market, or what we might call capitalist: those parts where profit and loss determine success or failure, where prices and wages are mostly free to adjust to what the market will bear, and where subsidies are small or nonexistent. But other parts of the American economy, such as education, health care, and housing, are highly distorted—they are heavily subsidized or regulated in ways that make innovation and competition very difficult. They’re not fully socialist, but you can’t really call them free market, either.

Capitalism, somehow, gets blamed for anything that goes wrong. Consider health care—it is highly subsidized; its prices are distorted by those subsidies along with incredibly complex regulations; the supply and allocation of doctors are highly constrained by regulations; hospital competition is curtailed by certificate of need requirements; and finally, on top of that, a highly regulated private insurance business is tangled up with everything. And when outcomes go sideways, people claim it proves that markets don’t work for health care. One of the essential pillars of capitalism is people spending their own money on themselves. The essence of the health-care market is people spending other people’s money, often on other people.

People decry the high price of housing in New York and San Francisco, and some blame it on the greed of landlords. But greed is as old as humankind. What has changed in recent decades and driven prices upward is ever more restrictive zoning that has made it harder to build new rental units in cities where the demand is highest.

But let’s put aside the question of whether capitalism can fairly be blamed for the ills of health care in America or the high price of housing in certain American cities. Let’s look at the more basic charge of immorality.

Is capitalism good for us? Does it degrade us or does it lift us up? The critics are right that competition is an important component of the capitalist system, but the dog-eat-dog nature of that competition is greatly exaggerated. We call it competition, but it can also be thought of as the availability of alternatives. As Walter Williams likes to point out, I don’t tell the grocery store when I’m coming. I don’t tell them what or how much I want to buy. But if they don’t have what I want when I get there, I “fire” them. The existence of alternatives, choices of where to shop, and competition incentivizes the grocer to stock the shelves with what I want.

My cleaning crew speaks almost no English and has little or no formal education. Yet I pay them about double the legal hourly minimum. It isn't because I'm a nice person. If I paid them only the minimum, they wouldn't show up, because many other people are willing to pay much more to have their houses cleaned. Competition, not the minimum wage, is what protects my cleaning crew from the worst side of me and anyone else they work for.

Competition in sports is typically zero sum. The team with the higher score wins and the other team must lose. But economic competition is positive sum. Market share has to sum to 100 percent. When highly reliable Hondas and Toyotas showed up in the United States at very reasonable prices in the 1970s and 1980s, for example, they took market share from American companies. But the total number of cars sold wasn't fixed. By making better and cheaper cars, the number of cars sold increased. And the quality wasn't static, either. Spurred by Japanese competition, American car companies improved their products' quality. And the American consumer was better off.

The essence of commercial life is positive sum. You hire me at a wage that makes it worthwhile for you to do so. I work for you because the wage is high enough to make me better off as well. Without both of us gaining, there's no deal to be made.

Of course, some people have fewer or less attractive alternatives than other people. Why does Walmart pay what its critics claim are inadequate wages? It's not because Walmart is especially cruel or greedy. (After all, I could make more on Wall Street than I do in academic life. That's not because Goldman Sachs is kinder than Stanford University.) Walmart pays what it does because it can. And it can pay what it does because the people who choose to work there have unattractive alternatives. Otherwise, they'd take a job somewhere else.

Similarly, workers in overseas factories make very little relative to their American counterparts because their alternatives are much worse than those available to American factory workers. It's not the cruelty of greedy international corporations that keeps the wages low. It's the poor alternatives those workers have available to them. In fact, poor workers in poor countries typically line up for the opportunity to work for an international corporation. Wages there, while low by American standards, are much higher than in other parts of the economy.

Over time, the poorest workers in countries such as China have seen their wages rise dramatically. Again, this is not because of the compassion of corporate employers but because of the competition they face in attracting good workers. There are two positive ways to help both foreign workers and low-wage American workers at places such as Walmart: increase the demand for their services and find ways to help them increase their skills. That makes them more attractive to employers, who can pay them more because the workers are more productive.

Competition in a free-market system is about who does the best job serving the customer. Unlike traditional competition, there isn't a single winner—multiple firms can survive and thrive as long as they match the performance of their competitors. They can also survive and thrive by providing a product that caters to customers looking for something a little different.

Finally, there is a great deal of *cooperation* in capitalism. One kind is obvious: investors cooperate with managers, who cooperate with employees to produce a great product or service. Many people find the opportunity to work with others in this way—to produce something of value for the consumer—deeply rewarding in ways that go beyond money. Part of the reason people start businesses is money, of course. But there is a large nonmonetary component: the experience of joining with others to create a great product or service that people value.

In the second Keynes-Hayek rap video I created with filmmaker John Papola, we tried to capture the best of this entrepreneurial side of capitalism:

Give us a chance so we can discover
The most valuable way to serve one another.

When Apple introduced the iPod in 2001, the 10GB model held two thousand songs, the battery lasted ten hours, and its price was \$499. By 2007, the best iPod held twenty times that number of songs, the battery lasted three to four times longer, and its price was \$299. Apple didn't improve the quality and lower the price because Steve Jobs was a nice or kind person. Apple improved the iPod because its competitors were, as always, constantly trying to improve their own products. But I don't think money was the only thing motivating improvement at Apple. Steve Jobs was happy to get rich. But he was also

eager to keep his firm afloat in order to employ thousands of people at good wages and to work alongside those workers to create insanely great, ever better products. The money was nice. But it was not all (and maybe hardly at all) about the money.

Steve Jobs wanted to put what he called a dent in the universe. He wanted to make a difference. To do that, he needed to convince people of his vision, and then that vision had to be made real in a way that could profitably sustain an enterprise. Free markets gave Jobs the landscape where he could make his vision a reality.

You do have to pay the bills. The money that comes from consumers who value your product has to be sufficient to cover your costs. That's the profit-and-loss criterion that underlies capitalism—you have to do as good or better than your competitors at serving your customers. But that's not enough. You also have to do it at a price and pay a wage to your employees that result in a profit.

The other moral imperative of capitalism comes from repeated interactions between buyers and sellers. When there are repeated interactions, sellers have an incentive to treat their workers and their customers well—otherwise, they would put future interactions at risk. The safety of air travel, for example, is highly regulated. But cutting corners to save money and thereby putting passengers at risk are bad ideas for an airline that wants to exist past tomorrow. Crashes caused by negligence destroy an airline's reputation. In markets, reputation helps ensure honesty and quality. Being decent becomes profitable. Exploitation is punished by future losses.

None of the above rules out a role for government. You can defend free markets and capitalism without being an anarchist. Government plays a central role as the most effective enforcer of property rights and contracts. It administers the legal system. And it can and should restrict opportunities for people to impose costs on others. There's nothing un-capitalist about making it illegal to dump your garbage into the air or water.

But what about the poor? How can we applaud the morality of capitalism if its gains go only to the richest Americans? Who wants to champion a system that gives the 1 percent the richest of chocolate cake and leaves everyone else with crumbs?

While there is evidence that supports this claim of the poor as bystanders who are left unchanged by decades of economic growth, this evidence typically looks at snapshots of workers at two different points in time, comparing changes in income or wealth of the top 1% to the standing of the top 1% decades later. The implicit assumption is that the people who were at the top in the past got much richer over time. This approach ignores economic mobility and falsely assumes that the top 1 percent are a fixed group. The people composing that 1 percent change; the same people do not simply get richer while everyone else treads water. The 1 percent includes people who once were much poorer but, now that they have reached the top, are richer than the people who previously were at the top. Similarly, the bottom twenty percent today are not the same people who were at the bottom in the past. When you follow the same people over time, rather than comparing group snapshots at two different points in time, all groups—poor, middle class, rich become more prosperous over time. A rising tide lifts all boats and not just the yachts. (I've explored these issues in videos and essays published elsewhere.)¹

I would also point out that the guards in Cuba face south; they prevent Cubans from escaping the egalitarian paradise of Cuba for the unequal American economy. Poor people from all over the world risk their lives to come to the United States. Certainly they come here for opportunity for themselves and for their children. They expect—correctly, in my view—to share in the future growth of the American economy.

But I think poor people come here for more than just the financial opportunities of the American economy. They come for a chance for their children, and for themselves, to flourish, to use their gifts and skills in ways that bring meaning well beyond financial rewards. Money is pleasant, and not starving beats starving. But the real morality of capitalism and of the American system, with all its flaws, is that it gives people the chance to flourish through their work.

Not everyone has this chance in America today. But I believe that many of the challenges that the poorest among us face are not the fault of capitalism but the result of the breakdown of other institutions, which makes it hard for people, especially young people, to acquire the skills that would allow them to thrive. The US school system needs an overhaul. In particular, it could use more competition. The charter school movement is one part of a potential policy improvement. Even more competition—including private school options funded by scholarships—would go a long way toward allowing the poorest among us a chance to share in the American economic system, imperfectly capitalist that it is.

Endnotes

¹ See, e.g., Russ Roberts, “The Numbers Game,” PolicyEd, <https://www.policyed.org/numbers-game> and Russ Roberts, “Do the Rich Get All the Gains from Economic Growth?,” *Medium*, October 23, 2018, <https://medium.com/@russroberts/do-the-rich-capture-all-the-gains-from-economic-growth-c96d93101f9c>.



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Democratic Capitalism Exceeds Socialism in Economic Efficiency as Well as in Morality



By Ayaan Hirsi Ali, *Research Fellow, Hoover Institution*

As of 2020, many Americans—particularly but not exclusively the young—remain intrigued by socialism. Indeed, a 2019 survey found that socialism is as popular as capitalism among young American adults.¹ Well-known political figures such as Senator Bernie Sanders (I-VT), Representative Alexandria Ocasio-Cortez (D-NY), and others describe themselves as “democratic socialists” and advocate tens of trillions of dollars in new spending programs along with a massive expansion of state power over citizens’ lives.²

In academic circles, too, the debate surrounding the merits of socialism continues. A little less than thirty years after the Soviet Union was formally dissolved, capitalism is nearly everywhere on the defensive, both in academia and in the realm of public discourse. Yet no system offers better opportunities for the downtrodden to rise and improve their living standards than democratic capitalism.

The socialism of the twentieth century was primarily economic in orientation: it rejected capitalism and favored state control over the economy. Individuals had to submit to central economic planning. Conceptually, this socialism did not see individual human beings as having an inherent dignity. Instead, it divided society into two clashing, competing classes: the group that was economically oppressive (the capitalists) and the group that were economically oppressed (the workers). In this worldview, individualism as a concept became not merely meaningless but suspect.

The “neosocialism” that I see taking root today also rejects capitalism as a system, and, just as in the socialism of old, the individual and his own moral contributions are devalued. What matters, once again, is the group (the collective tribe) to which an individual belongs. Again, these collective groups are either oppressive or oppressed, and an individual’s moral worth is determined by looking at the group or groups to which he belongs.

Capitalism, with its emphasis on individualism, meritocracy, and color-blindness, is not compatible with this worldview. Much of today’s debate is therefore not being waged on grounds of the efficiency or inefficiency of capitalism, but on grounds of capitalism’s alleged immorality. One of today’s most influential public voices, Robin DiAngelo, rejects capitalism as follows: “Capitalism is so bound up with racism . . . capitalism is dependent on inequality, on an underclass. If

the model is profit over everything else, you’re not going to look at your policies to see what is most racially equitable.”³

Predicting the future is far beyond my abilities, and drawing lessons from past experience is only a bit easier. In this paper, I aim to defend the superiority of democratic capitalism over both the old socialism and neosocialism, not only for its economic efficiency, but also for its moral superiority and the possibilities it provides for humans to flourish. In order to do this, I explain my personal experience with socialism and describe how aspects of socialism are seeping into the current American debate. I caution that before they embrace neosocialism, young Americans ought to consider carefully not only its superficial attractions, but also its fundamental drawbacks. Those who value individualism, meritocracy, and equality of opportunity will find these things in a capitalist system, as long as it provides educational opportunities to all. Conversely, those who are philosophically critical of the concepts of individualism and meritocracy, and those who favor equality of outcomes rather than equality of opportunity, are likely to condemn capitalism, without providing much clarity about what would replace it.

A Personal Recollection of Socialism

To me, socialism is more than just an academic concept. When I was around six or seven years old, I lived in Mogadishu, Somalia, with my mother. Much of her daily life consisted of standing in line for hours on end to receive the daily ration of food allotted by the government. At the time, the Somalian state, if one can call it that, had implemented Marxist economics, to the extent that this was possible.⁴ To every family the state apportioned a certain quantity of food: a family of five would receive a certain quantity of sugar, flour, oil, and so on. In the government rations, there was hardly any meat or eggs, as these were deemed to be luxury goods. A person received what the authorities decided was strictly necessary, not what the person wanted.

My first experience of socialism was, therefore, one of enduring long lines in the hot sun, without shelters or panels to cover us. I recall that my mother and grandmother felt a sense of bafflement, indignity, and real powerlessness as a result of this daily grind. It occurs to me now that under Soviet communism, the people of Russia and the other incorporated republics who endured these lines waited in the cold. We, on the other hand, had to endure unbearable

heat, with temperatures hovering between 95 and 105°F, to receive a small amount of sugar.

In terms of power relationships, the lines served an important function. They emphasized the relative powerlessness of the individual and the power of the collective over even the smallest food rations. The recipient was not in control of what she would be handed. You had to obey political authorities to receive anything, however modest. This was the Marxist form of order—even if, due to Somalia’s pastoral traditions and low degree of industrialization, rationing was dictated as much by the imperative to limit food consumption as it was by “scientific socialism.”

In the specific case of Somalia, scientific socialism did not work as expected. Somalis have endured much throughout their history, and the individuals who make up the various Somali tribes are quite resilient. If, under scientific socialism, individual initiative was to be curtailed in favor of more collective schemes, and if standing in line resulted in the most meager of rations, Somalis simply found other ways to cope: they began to smuggle, scheme, game the system, and lie.

In a society such as Somalia’s, tribal and cultural components could not be easily erased by the administrators of scientific socialism. In an attempt at ideological syncretism, the ruling Siad Barré regime sought—unsuccessfully—to blend Marxism with the Qur’an. Even so, the system of scientific socialism as implemented by the government did not result in equality and justice. On the contrary, it was the people with the strongest political connections to the government and to influential clans who were most empowered under the system. A system that claimed to empower the marginalized and dispossessed showed an astonishing lack of compassion for precisely the least-connected people. You had to “know someone,” invariably someone who was not accountable to the public. What I witnessed in those days was the very opposite of equality and justice. There was tremendous inequality and tremendous injustice. Siad Barré’s communist regime brutally repressed dissidents, as did other authoritarian socialist regimes of the twentieth century.

This was my early introduction to socialism and the command economy. To be sure, socialism had its defenders, even in Somalia. My own aunt preached socialism with fervor and truly believed in it. She had read Marx and quoted his insights like a zealous Christian might quote verses of the Bible. Individuals such as my aunt became the gatekeepers of the system. In school, my fellow students and I sang songs of praise for the system, surrounded by large pictures of Marx, Lenin, and Barré.

Today this type of orthodox socialism still appears to have its defenders, despite the fact that it failed in Somalia just

as it has failed more recently in Venezuela, a once rich country now engulfed in hunger and chaos because of similar pathologies of corruption and inefficiency that arose inevitably from state control of economic life.⁵

What Does *Socialism* Mean?

There is a real lack of clarity about what the term *socialism* means, as it means different things to different people. There are at least five terms that are frequently used: *socialism*, *communism* (*Marxism*), *Marxism-Leninism*, *national socialism*, and *social democracy*. Although a full analysis of terminology is beyond the scope of this paper, no analysis of socialism can omit some definitional remarks.⁶

Broadly speaking, *socialism* typically refers to the ownership of things in common, rather than private ownership; it has been defined as “a form of social organization that prioritizes the common ownership of property and the collective control of economic production.”⁷ Quite optimistically, Michael Newman argues that “the most fundamental characteristic of socialism is its commitment to the creation of an egalitarian society.”⁸ In the nineteenth century, early socialist ideas were associated with thinkers such as Robert Owen, Pierre-Joseph Proudhon, and Claude Henri Saint-Simon. Some early socialists were more anarchist or individualist than others, but all these thinkers favored a reorganization of society along what they believed would be more equitable lines.

Generally, socialists of all persuasions share a critical view of industrial capitalism and its emphasis on private property, but socialists have differed (both in the nineteenth century and today) on the proposed remedy. Therefore, as Roger Scruton reminds us, the work of socialists is more frequently distinguished by its critique of capitalism than by its detailed description of what socialism should look like and how it should work.⁹ Among revolutionary socialists, socialism as it existed in the Soviet Union is frequently theorized as a transitional state, ultimately culminating in a communist utopia.

Capitalism on Trial

For decades, economic socialism inflicted extraordinary misery on hundreds of millions of people in Eastern Europe and the former Soviet republics. People waited for hours in the cold for the chance to receive a loaf of bread or a poorly fitting pair of shoes. Frequently, nothing was left by the time one got to the counter. In China, thanks to the partial embrace of capitalist reforms after 1978, the rural population under the current poverty line has decreased by 739.9 million people.¹⁰ That is an astonishing achievement that should make us think about the human potential that capitalism can unleash through rising living standards.

The key puzzle confronting us in 2020 is why, with so much empirical evidence in stock on the rise and fall of authoritarian socialism, there is even a conversation on this topic, other than classroom discussions meant to inform students about some of the darkest pages of human history.¹¹

The Economic Argument

Socialists lost the broad economic argument in the twentieth century because socialist systems (command economies) did not work. Why not? In a capitalist economy, market prices, in a framework of private property, coordinate economic activity. Firms use prices to see which goods, products, and services are needed and where, at what time, and in what quantities they should be supplied. Firms compete, on the basis of market prices, to deliver these goods in as efficient a way as possible. Firms that miscalculate run the real risk of going bankrupt. The most efficient and competitive firms—those that best meet the needs of the public—survive and thrive.

In a socialist system, however, there are no market pricing signals. This creates a type of chaos throughout the economy. Economists in the West who participated in the “socialist calculation debate” of the 1920s and 1930s, including Hayek, predicted this crucial flaw in socialism theoretically before it became painfully clear empirically.

In a socialist system, unlike in a market system, orders to produce come from the top, frequently in the form of quotas. Yet in the absence of a market pricing mechanism to determine profit and loss, poorly performing organizations tend to survive under socialism: there is no bankruptcy to cull them. The public good suffers as a result. Crucially, in the absence of genuine private property, there may be little incentive to work hard if one cannot keep the fruits of one’s labor. Why cultivate a field carefully if you cannot benefit from the harvest?

Although socialism is capable of centrally driven technological innovation, in the absence of market pricing signals, a socialist system cannot distribute technological or scientific blessings to the mass of the people in a way that increases their living standards in a sustained way. There is also a moral component: socialist systems are command economies that tell people to obey central economic plans, even if they have other ideas. Under socialism, you may wish to start a business, or you may have an idea for a new technology: too bad. You must do as you are told. A system of authoritarian socialism does not adapt to your wishes. It consists of commands from the top, as in the case of Gosplan, the central board that supervised the planned economy of the Soviet Union—though how many American high school graduates today know what Gosplan was, and why it did not succeed?

In socialism, force and coercion become necessary to compel people to obey central directives. Socialist economic planning, in other words, requires authoritarian measures. In socialism, a “black economy” of smuggled goods frequently arises as a result to meet the real needs of people that the central plan does not fulfill.

The Ability to Adapt

Unlike socialist societies, societies that have political freedom, alongside a capitalist or free enterprise system in the economic realm, have a prodigious capacity for adaptation. In fact, a capitalist system is constantly in motion to satisfy the manifold human wants and needs of millions of diverse individuals. Much has been written about the socialist experiment with economic planning; it is now widely acknowledged that the market economy’s ability to adapt is far superior.

In capitalism, every effort is made by businesses to satisfy the needs and wants of customers. A capitalist system offers trial and error on a daily basis of new technologies, new ways of doing things, new ways of improving existing technologies, and new ways of running existing businesses.

Because of competition, a business in capitalism will survive only to the extent it offers consumers a product they enjoy or need at a reasonable price, whether that is cars, food products, lumber, or clothing. And it is true even of hospital systems and medical providers: these vie for the business of patients for, say, safe and successful surgeries. The Internet has given entrepreneurs more opportunities than ever before to bring their product to market, with fewer gatekeepers.

Under a system of crony capitalism, businesses may rely on improper political connections to create cumbersome regulations that reduce competition. However, in a country with a functioning rule of law, a free press, and an informed public, and where corrupt officials are prosecuted, intense scrutiny of such capitalist practices can mitigate this systemic risk.

Democratic capitalism is unlikely ever to live up to its theoretical ideal. From the late nineteenth century to the early twentieth century, during the first phases of industrialization, there were indeed inhumane working conditions, ones that should not be forgotten. People worked in truly unsafe spaces. Over time, however, capitalist societies adapted and introduced safety measures, sickness benefits, old-age pensions, and other forms of social insurance. New technologies reduced safety risks over time.¹² Social reformers pressed political leaders to abolish child labor. Universal education was introduced. The wealth created by the capitalist system made these reforms easier to implement. Working conditions in socialist countries were frequently more brutal, with fewer worker protections and environmental

safeguards.

Pure laissez-faire capitalism is a thing of the past. In a contemporary capitalist economic system, enterprises have to adhere to rules and regulations, including safety measures for employees. Some businesses cheat when it comes to safety standards, particularly in developing countries. But in more developed countries, most businesses tend to comply with rules for fear of prosecution.

Public authorities in a capitalist system are constantly calculating tradeoffs between the need for taxation for certain public goods and the economic freedom they want to give to enterprises and individuals. Enterprises and businesses are successful because they offer products that people wish to buy or consume. Amazon has a high market capitalization because it provides value to millions of consumers looking for efficient deliveries of goods to their homes or workplaces. As a result, the owner of Amazon—as it happens, a man of humble origins—became the richest man in the world, and this state of affairs will continue until an entrepreneur comes along with a better business idea or another business outcompetes Amazon in providing efficient deliveries at short notice.

Admittedly, nothing is perfect. In the capitalist economy today, there are, for example, recurring questions surrounding working conditions in sweatshop factories and warehouses, as well as in the gig economy. That is precisely where the agility and nimbleness of societies built on a system of free enterprise come in: such societies adapt and are capable of adapting.

Social democracy as it exists in the Scandinavian countries accepts the core premises of capitalism (the existence of corporations, private property, the free price mechanism, and a stable currency) alongside a relatively high level of taxation to finance redistributive social welfare programs. Crucially, social democrats accept freedom of expression, genuinely free and fair elections, the existence of political opposition, freedom of press, and the rule of law. Scandinavian social democracy is not, however, what today's American neosocialists desire to impose, some claims to the contrary notwithstanding. Capitalism is roundly condemned by neosocialists. "The system" must go, we are told.¹³

Today's Neosocialism

Broadly speaking, the debate on socialism has already happened, and one would think it had been long since resolved.¹⁴ Authoritarian socialism, in its quest for utopia, has been a human catastrophe with an immense death toll. Millions died for the cause, and millions more were killed, tortured, imprisoned, and impoverished.¹⁵ The names Mao Zedong, Pol Pot, and Stalin evoke in those who survived their prison camps and killing fields the same revulsion as a figure such as Hitler. All of this has been well documented,

particularly after the Soviet Union fell and Communist Party archives were briefly opened to researchers.¹⁶ Information provided by high-ranking defectors such as Ion Mihai Pacepa and Oleg Gordievsky and authors such as Aleksandr Solzhenitsyn helped shed light on what really happened in socialist societies. Defenders of theoretical socialism have argued that none of the above examples constitute real socialism, which, they say, would be quite different if properly implemented. This is a claim I cannot take seriously.

Authoritarian socialism is lethal because it brooks no dissent.¹⁷ In every implementation and expression of authoritarian socialism, individual freedom has been irrevocably compromised for a utopian and unattainable collective idea.¹⁸ The sheer number of failed socialist experiments raises important questions about politics, economics, justice, and human nature.¹⁹ Also well documented is the abuse of language by the leaders of socialism: their grievance narratives, their claims to be helping the downtrodden only to make their lives more miserable, and, of course, allegations of exploitation and injustice against the capitalist system.²⁰ Why was this doomed enterprise so often attempted?

The neosocialism of 2020 has shifted gears significantly compared to the more economically focused socialism of the twentieth century and has become heavily enmeshed with ideas of postmodernism and identity politics.²¹ This type of socialism rejects capitalism as an immoral system, along with notions of national borders and national sovereignty. In their stead, advocates of neosocialism embrace critical race theory, intersectionality, identity politics, and other ideas associated with the "woke" movement. Individualism, meritocracy, and the concept of color-blindness are viewed with deep suspicion. American history in general is condemned, with an emphasis placed on the darkest pages of US history, not on the ideals to which the founding fathers aspired or on what drew so many immigrants of all backgrounds to this country through the years.²² Environmental alarmism, rather than more pragmatic approaches that include support for nuclear energy, completes the picture.

Neosocialism, or woke socialism, is therefore much broader and all-encompassing than the old rejection of capitalism as an economic system. This makes it quite distinct from the socialism of Karl Marx and Friedrich Engels, which was heavily focused on economics and the struggle of workers of all backgrounds. Neosocialism carries a profound moral appeal for young people who may know little about history or the nature of socialism, or who are disenchanted with the current state of the world.

Nevertheless, although the new socialism differs from Marxism of old in some respects, the two resemble each other in some ways. Once again, individual human beings become of lesser importance than structural considerations

in the effort to achieve a utopia, which is never achieved because it is unattainable.

There is another similarity. The Marxism of old divided all people into two categories: the oppressors (the bourgeoisie who controlled the means of production) and the oppressed (the workers or proletariat). It did not matter how nice, kind, or charitable a person was individually; if he belonged to the bourgeoisie, he was condemned on the basis of his class identity. In a communist revolution, he was the enemy, against whom all means were justified.

In the woke politics of the late twentieth and early twenty-first centuries, a similar division is made. All individuals in society are viewed not as individuals to be judged on their own merits, but as members of oppressive or oppressed collective tribes. The division is a binary one—a person is either an oppressor or a victim. What matters is the intrinsic identity of the person, frequently an immutable characteristic such as the race to which the individual belongs.

Adherents of this way of thinking are frequently found in fields such as critical race theory and gender studies.²³ In these fields, concepts such as individualism, meritocracy, and color-blindness are viewed with either profound distrust or explicit hostility. Democratic capitalism is rejected as a farcical concept, a mantle for racism, sexism, and structural, systemic oppression. These concepts have spread outward from academic institutions and law schools in the late 1980s and 1990s until, amid the turbulent events of 2020, they have become embraced by celebrities, political figures, and insurrectionary protest movements.

The system of democratic capitalism in the Western world, including America, has therefore been put on the defensive in spite of its extraordinary accomplishments. Calls are frequently heard to replace it with some type of socialism, which, as in the past, is said to be a more moral system.

America in 2020

To wade into the debate raging today on capitalism versus socialism is to court controversy. I am no stranger to that. I left Islam nearly two decades ago and since have had numerous discussions about why I chose the principles of the relatively young Western secular enlightenment over the centuries-old faith of my religious heritage. I have not come across anyone who could convince me to back away from my adopted moral framework, built on individualism, critical thinking, freedom of expression, and the promise of a meritocratic system.

Nevertheless, caution is justified to a degree, especially for one employed by a university, because we live in the intemperate era of de-platforming, disinvitations, smearing, and, in some extreme cases, loss of livelihood. To be active in

academic research today is to learn to tread carefully—to pad your work with disclaimers in anticipation of accusations of bigotry, apologize profusely for offenses you are accused of, even if you have not committed them, to refrain from asking questions that need urgent answers but may not be asked, and to sidestep important policy debates for fear of jeopardizing your career. Any criticism of identity politics and neosocialism could lead you straight into this quagmire. Most academics in the United States, and indeed in most Western countries, are left of center in their politics, and for many neosocialism has become a sacred topic. Engaging in any kind of critical appraisal of that ideology can earn you pariah status pretty quickly in the eyes of self-styled activist academics. Some classical-liberal professors, including Bret Weinstein, Heather Heying, Erika and Nicholas Christakis, Steven Pinker, Joshua Katz, and Abigail Thompson, have been surprised by this growing intolerance.²⁴

An inquisitive reader may wonder what these ongoing and recurring academic controversies have to do with the debate on capitalism versus socialism. The answer is that the same forces that currently use identity politics to condemn American history and society simultaneously condemn the capitalist system in principle. In reducing room for freedom of expression ever further, and by falsely equating capitalism with racial oppression, these forces are making truly free intellectual debates all but impossible. For these reasons, I fear it will not be possible to defend capitalism, either intellectually or morally, in a climate of increasing orthodoxy that marginalizes or silences dissenting voices. As woke intellectual intolerance spreads ever further into universities, newsrooms, and even large corporations that are fearful of diverging from the new orthodoxy, capitalism as a set of ideas will be increasingly on the defensive, in spite of its moral and economic accomplishments.

The Search for New Categories of Victimhood

Even as the economic argument for socialism was lost with the fall of the Berlin Wall in 1989 and the dissolution of the Soviet Union in 1991, trade unions in many Western countries had obtained—in many cases—fairly favorable terms for their members in the capitalist system. The working class seemed in little immediate danger of immiseration.

Among left-wing intellectuals, the search was on for a new source of “victims.” One targeted group was immigrants. In almost all Western societies, immigrants became the new proletariat, a class that was said to be oppressed. Unfortunately for those who divide the world into victims and oppressors, even immigrants, just like the workers of old, began to adapt. They earned money; they saved money; they wished to build a better life. Some—not all—thought in long-term ways about their children’s future. Such immigrants were absorbed into the economic engine of Western countries,

and they were not looking for a revolution. Some immigrants, as in the case of Cuban immigrants to the United States, specifically came from countries or societies where there had been a revolution, leaving them permanently wary of sweeping socialist promises.

When it became clear that not all immigrants could be grouped into the category of “the oppressed,” however, a number of intellectuals and activists moved deeper into the realm of identity politics. In the United States, with its turbulent racial history, the ideas of critical race studies spread first in academia (including law schools), then into broader society.²⁵ Society was not just divided into rich and poor, haves and have-nots, or natives and immigrants. Instead, a whole range of other divisions were introduced to analyze which groups were—allegedly—most oppressed.

The tribalization of society into these collective blocs is the intersectionality matrix. There is an irony at work: intersectionality *could* perhaps focus on individuals and their unique layers of lived experience. Yet intersectionality divides society into collective tribes that are pitted against one another. And, paradoxically, the individual qua individual disappears; an individual becomes the sum total of his tribal memberships, and this determines his moral merit or demerit. In intersectionality and identity politics, the categories of “privilege” and “domination” are identified by Kathryn Pauly Morgan as follows:

Viewing things in terms of male and masculine, female and feminine; Male; White; European in origin; Heterosexual; Able-bodied; Credentialed, highly literate; Young; Attractive; Upper and upper-middle class; Anglophones; Light, pale; Non-Jew [called “majority religion” in the first edition]; Fertile.²⁶

The categories of “oppression/resistance” are identified as:

Gender “deviant”; Female; People of color; Non-European, Aboriginal; Lesbian, gay, bisexual; Persons with disabilities; Nonliterate, uncredentialed; Old; Unattractive; Working class, poor; English as a second language; Dark; Jews [called “minority religion” in the first edition]; Nonfertile, infertile.

The types of oppression to tackle then become:

Genderism; Androcentrism; Racism; Eurocentrism; Heterosexism; Ableism; Elitism; Ageism; Politics of appearance;

Class bias; Language bias; Colorism; Anti-Semitism [called “religious oppression” in the earlier edition]; Pro-natalism.

With this worldview, any kind of social reconciliation for America’s diverse population appears impossible. We confront the tribalization of society, and, in a country as diverse as the United States, it portends ferment, discontent, and the loss of a common civic culture as well as democratic capitalism.

Loss of Confidence

The loss of public confidence in American institutions is well known. Since 2001, the United States has witnessed several crises that have undermined citizens’ faith in political leaders’ ability to resolve (and prevent) serious problems. The difficulties that the United States encountered in Afghanistan and Iraq, the 2008 financial crisis and its aftermath, along with high unemployment caused by the COVID-19 lockdown measures—all have shaken faith in elites.

There are other causes for disillusionment. Confidence in the system has been shaken economically by long-term structural changes in employment and manufacturing, and militarily by the lack of a clear, decisive victory in war theaters such as Afghanistan in spite of significant casualties, injuries, and hardships endured by troops.

Socialist Proposals

Neosocialists make the argument that capitalist societies—and especially the United States—need to be changed in a (near?) revolutionary manner to achieve social justice. Senator Bernie Sanders’s influential campaign and policy platforms in 2016 and 2020 focused on a redistribution of wealth and resources in American society. His major policies aimed to provide college, housing, and Medicare for all, while also eliminating medical debt and radically changing the economy through the Green New Deal. His “Housing for All” plan aimed to invest “\$2.5 trillion to build nearly 10 million permanently affordable housing units” and another \$70 billion in public housing improvements to “repair, decarbonize, and build new public housing.”²⁷ His “College for All” plan would have cancelled all student debt and “invest[ed] \$1.3 billion every year in private, non-profit historically black colleges and universities and minority-serving institutions.”²⁸ Sanders ran on the implementation of the Green New Deal, proposed by Representative Ocasio-Cortez and more established figures such as Senator Ed Markey (D-MA), which, aside from overhauling our system, would require another \$16.3 trillion for public investments.²⁹ Tens of trillions of dollars of new funding would be paid for

by a combination of changes, such as increasing taxes on the wealthy, corporations, and selected industries, including the fossil fuel industry, and reducing costs through shrinking the military budget. Unfortunately, the government would be expected to spend vigorously without a sustainable or realistic method for covering costs.

A growing number of political leaders have endorsed the Green New Deal. The costs would be enormous, between \$52 and \$93 trillion over a ten-year period.³⁰ How this could be afforded is difficult to fathom because existing entitlement programs are already on an unsustainable trajectory.³¹ As has been observed by analysts who have dissected the Green New Deal, however, the extreme costs do not constitute the most radical aspect of the proposed system; as one set of critics notes, “Further expansion of the federal government’s role in some of the most basic decisions of daily life would likely have a more lasting and damaging impact than its enormous price tag.”³² The expansion of state power and control over individual lives, families, and businesses that would be required to achieve the Green New Deal is so far-reaching that it would not transform America into a Danish social democracy: instead, it would take America to a place where capitalism as we know would cease to exist.

In the drive for neosocialism, there are repeated calls for “free” health care, education, and college for everyone. The eagerness to go after the wealth of billionaires indicates that none of these promises would in fact be free—these generous policies would be paid for by someone else, by people who would, of course, placidly remain in the United States and have their wealth confiscated by the government rather than, say, move abroad.

Higher Education

In their drive to expand funding for higher education, socialists face a paradox. Institutions of higher education are less and less a place where a student can go and learn a trade so that he or she can become a productive part of the free enterprise system. Increasingly, universities are places where teachers indoctrinate a captive audience, viewing students as clay to be imprinted with one specific vision of social justice.

Health Care

There is no denying that the American health care system is messy.³³ There is a great deal of inefficiency and inequality. But the American health care system leads the world in innovative technology, and in fact, it does benefit most people the majority of the time. Socialists wish to take that away and replace it with some type of state-run health care. Some even defend the Cuban health care system over the American system because the Cuban system is said to be free.³⁴ No system is free, however. Any work must be compensated somehow, by someone. The question is

to whom medical professionals and hospital systems are *most* responsive: the patient, an insurance company, or the government? Generally, the best systems are the ones in which doctors and hospitals are highly responsive to the needs of patients, and have an incentive to be. A rhetorical sleight-of-hand obscures the quest for genuine solutions that would allow the least-advantaged Americans access to real care, rather than to a waiting list in a state-run health care system.

Environment

Another example of a topic where critical thinking remains difficult is environmental policy. Caring for our environment is an extremely important issue for future generations but also one that we must be able to openly debate and discuss. Yet if one asks questions about, for instance, the basis for claims that the world will end in twelve years, one risks being branded as an immoral person.³⁵

Recently, Michael Shellenberger, the founder and president of Environmental Progress, an organization that aims to save the environment while also ending poverty, was shamed and censored for his work on climate change.³⁶ He contends that alarmist rhetoric reduces our chances of implementing targeted, focused measures where they are most needed. For instance, certain disasters are actually becoming *less* frequent, he observes. Even though Schellenberger uses evidence to support his arguments, he faced censorship on Facebook after publishing an article, “On Behalf of Environmentalists, I Apologize for the Climate Scare,” on his new book. Posts referring to his article were marked with a warning on Facebook, indicating that it might not be factual.³⁷

We need to be able to confront environmental crises and explore pragmatic solutions that would work while simultaneously maintaining employment and lifting people out of poverty.

Paradoxes

A paradox quickly emerges in neosocialism. The US government is denounced by socialists as exploiting the poor by being in cahoots with Wall Street, big tech, and pharmaceutical companies. An immoral collusion between the US government and big business is alleged. Yet socialists wish to expand the federal government—which they have condemned as guilty of hurting the public—to give it unprecedented levels of intrusion into the daily lives of ordinary citizens. Is this not dangerous? one might ask. Here is the solution: only socialists can govern because only their vision of government is seen as legitimate. If conservatives wished to expand government, that would be seen as perilous. But if it were done by a socialist, it would be fair. That is not a reasonable position.

There is a second contradiction. The more militant socialists denounce those who are not on their side as fascists. The biggest practical contradiction to that argument at the moment is Antifa, which stands for “antifascist.” The structure of Antifa and its activities, however, are both distinctly fascist. The masking of faces, the operating in groups, the glorification of violence, the sanctioning of physical intimidation of opponents—these are similar to what fascists did in the twentieth century.

Here, a note on the importance of critical thinking is in order. The growing strictures on debates surrounding the organization Black Lives Matter, transgender people, and excessive police use of force—these restrictions on free speech are often accompanied by a rejection of the capitalist system and of the image of America as a “capitalist” superpower. For example, one of the cofounders of Black Lives Matter describes herself as a “trained Marxist,” that is to say, someone who rejects capitalism.³⁸ We should be cautious, in the quest to improve conditions for African Americans and other minorities, in embracing this particular organization and its distinctly ideological worldview.³⁹

The Morality of the Open Society

In a free society, you try to persuade others of your point of view. Your premises are inevitably contested, and you defend them in open debates. Observers assume the task of listening to both sides and determining, through reason and logic, which arguments are most persuasive. That is what—in theory—leading institutions such as universities, the press, and the media are for in free capitalist societies. In order to persuade, you have to engage in critical thinking and simultaneously process questions that criticize your own line of thought. There is, literally and metaphorically, a marketplace for ideas.

For neosocialists, however, critical thinking represents a serious impediment to their quest for control. It is therefore important for them to establish that if you contest the premises of woke ideology, you have blasphemed. I am all too familiar with the blasphemy laws of sharia, and to me, the woke mobs and their “cancel culture” have all the hallmarks of a religious cult. There is also a neosocialist critique of science and its meritocratic promises more broadly as being somehow tainted.

All of this comes back to the importance of the rule of law. An equitable rule of law protects the rights of women, children, and gays *as individuals*. Yet our culture is being reshaped into one of multiple tribes, where individualism and personhood have a secondary importance.

Conclusion

The rise of tribalism, identity politics, critical race theory; the ideological bent of gender studies, the focus of intersectionality on collective blocs rather than the human individual—all of these correlate with the rise of a new socialism. Consequently, we are at risk of losing the ideal of a universal humanity, which can be based only on a respect for individuals, regardless of their backgrounds and attributes.

Like the socialism of old, neosocialism divides everyone into either “oppressed” or “oppressor” and envisages serious retributive measures against the latter. Individualism is devalued, as is freedom of expression. Capitalism, the rule of law, and the traditional family unit are rejected by detractors as oppressive. Before we go further down this road, we have to ask ourselves where the end point will be, and what we risk sacrificing to get there.

Part of the reason that I am in favor of political freedom and free enterprise is that the people who believe in it and who built our institutions on behalf of these ideals do not promise perfection. They do not promise utopia. They understand progress as a process of constant trial and error and recognize our human foibles.

Embracing this process is what is urgently needed, rather than the quest for a revolutionary utopia. Defenders of a free, open capitalist society do not see human beings as dough that can be kneaded into any kind of shape. We accept that there is evil in the world, and that is why we have a criminal justice system and a military. It is also why we have a court system. We assume that every person is innocent until proven guilty, and we have a process that aspires to give the greatest amount of justice to the largest number of people. Will there be injustices? Yes. When we witness an injustice, our response should be: How can we correct this?

The adherents of neosocialism have now racialized their worldview to such an extent that all white Americans have become morally suspect, while nonwhites are presented as victims of their exploitation.⁴⁰ I posit, to the contrary, that it is the new socialists who are the true racists and exploiters. They misrepresent American and Western history. They exploit immigrants, ethnic minorities, women, members of the LGBTQ community, and children and poison young, impressionable minds through indoctrination, distortions of reality, and empty promises. Which concrete achievements do the neosocialists have to offer every subgroup they say they stand for? More often than not, as the left’s campaign against charter schools illustrates, they hurt the very people they say they are helping.⁴¹

human beings. It allows for gradual, incremental progress to remedy legitimate grievances as they arise. Until a better alternative can credibly be proposed, these are the institutions that we should celebrate—and defend.

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⁹ Roger Scruton, *Fools, Frauds and Firebrands: Thinkers of the New Left* (London: Bloomsbury, 2015), see chapters 8–9, 239–88.

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¹¹ For a brief assessment of ways in which the damage wrought by communism has been misunderstood and misrepresented in the West, see John Earl Haynes and Harvey Klehr, *In Denial: Historians, Communism and Espionage* (New York: Encounter, 2003).

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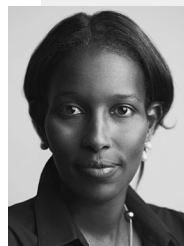
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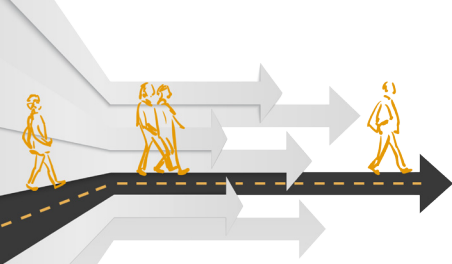
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SOCIALISM AND FREE-MARKET CAPITALISM: THE HUMAN PROSPERITY PROJECT

AN ESSAY SERIES FROM THE HOOVER INSTITUTION

Over the last century, free-market capitalism and socialism have provided the dominant interpretations, and conflicting visions, of political and economic freedom.

Free-market capitalism is characterized by private ownership of the means of production, where investment is governed by private decisions and where prices, production, and the distribution of goods and services are determined mainly by competition in a free market. Socialism is an economic and political system in which collective or governmental ownership and control plays a major role in the production and distribution of goods and services, and in which governments frequently intervene in or substitute for markets. Proponents of capitalism generally extoll the economic growth that is created by private enterprise and the individual freedom that the system allows. Advocates of socialism emphasize the egalitarian nature of the system and argue that socialism is more compassionate in outcomes than is the free market. The Hoover Institution's *Socialism and Free-Market Capitalism: The Human Prosperity Project* is designed to evaluate free-market capitalism, socialism, and hybrid systems in order to determine how well their governmental and economic forms promote well-being and prosperity.

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