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What Socialism and Capitalism Are

Introduction

The place to begin any systematic discussion of capitalism and socialism is by specifying what we mean by the terms. Each has meant different things to different people, and each of them has considerable baggage—mostly negative. Today, the term “capitalist” is usually meant as a pejorative epithet, carrying with it the connotation that someone is greedy and selfish, uncaring toward others, and probably indifferent (or worse) toward values such as fairness and equality. Similarly, being a “socialist” means allying oneself with unrealistic utopian schemes and failed or dictatorial political experiments.

Yet two recent events have thrust both terms back into public discussion: the election of Barack Obama as president of the United States in 2008 and the global economic recession that began around the same time. President Obama’s election has brought with it numerous claims not only that he himself is a (perhaps closet) socialist, but also that his policies, while nominally liberal, are really socialist at heart. Those who claim this do not mean it as a compliment. And the global recession is seen by many as a failure—and thus an indictment—of capitalism, perhaps even its death knell. Both sets of claims, as well as responses and counterclaims, are easy to find. They are often unproductive, however, in part because people mean so many different things by the terms they use. Yet there can be little hope of fruitful discussion, much less unity, if people cannot agree on the definitions of the central terms they use.

Some recent defenders of versions of capitalism have argued that because the term is so widely misunderstood and has so many negative connotations, we should abandon it and go with something else: commercial society, free enterprise society, market society, innovation society, and so on.¹ Perhaps the logical complement to socialism is not “capitalism” but “individualism”; since the word “socialism” seems to emphasize the primacy of the community or society over the individual, then “individualism,” which reverses the preference, might be what is called for.² Socialism has come to refer, however, not just to social or cultural claims but also to economic and political claims. Thus, “capitalism” seems the better opposing choice because it, too, seems to encompass not only economic but also political and even cultural institutions. There are other considerations one might make about the choice of terminology, but, as Caesar said when he crossed the Rubicon, *alea iacta est*—“the die is cast.” The terms “capitalism” and “socialism” have, for better or worse, become the preferred terms, and so I shall use them.

Definitions

Socialism’s traditional definition is the public ownership of the means of production. That definition reflected the central method for achieving socialism’s goals at a time—late nineteenth and early twentieth centuries—when “means of production” were almost exclusively things like factories and land. Owning them enabled the reorganization of society’s political economy in the service of socialism’s ends. By the dawn of the twenty-first century, however, the digital age has utterly transformed economic production. What constitutes “means of production” has now broadened to become indefinitely open-ended. Accordingly, the socialist inclination has had to adapt to the times. Rather than owning the means of production outright, it now typically proposes to regulate, canalize, or “nudge”³ people’s behavior and redistribute portions of their productive output in preferred directions. The principal values that motivate socialism have been—and

¹ See, for example, Clark March/April 2012 and McCloskey 2010.

² See Hayek 1945.

³ This term comes from Thaler and Sunstein 2009.

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remain—equality, community, and fairness (properly defined, of course). Whether serving those ends requires owning the means of production depends on historical circumstances. What will always be required for socialism to serve its ends, however, is to *centrally organize political-economic decision making*. Without that, there is no socialism; with it, the fairness, equality, and community of socialism can, it is hoped, be achieved.

By contrast, socialism's antithesis—capitalism—has at its core *decentralized* political-economic decision making. Its preferred values might be justice, liberty, and individuality (again, properly defined), but it holds that allowing individuals or voluntary groups of individuals to make political-economic decisions for themselves with little state interference is what enables the realization of the values it holds dear. Thus, the socialist-inclined position tends to favor planned patterns of social order—or the correction of unplanned patterns—according to principles and authority centrally derived and administered, whereas the capitalist-inclined position tends to favor unplanned or “spontaneous” patterns of social order that are deferential to what individuals and voluntary groups decide to do and skeptical of what third-parties might like to mandate or nudge them to do. I argue that this is the real difference between socialism and capitalism.

My working definition of socialism, then, is a system of political economy that prefers centralized political-economic decision making to achieve its ends. Other things being equal, the more fully an economy is centralized—whether through outright ownership or through the more common means today of command-and-control policies of *dirigisme*—the more fully is the economy socialist. Capitalism, by contrast, is a system of political economy that prefers decentralized political-economic decision making to achieve its ends. The more decentralized an economy is in this sense, the more capitalist it is.

It is important to emphasize that my goal is to describe a cluster of features that versions of these two competing systems of political economy share. Because their respective features fall along continua, it is quite possible that some particular positions or policies (or figures or political parties) will fall partially in one and partially in the other, or that persons of good faith might disagree about how to categorize a particular position, policy, and so on. For that reason, it will often be useful to think of *socialist-inclined* and *capitalist-inclined* policies

or positions, which indicate the tendencies of the particular policies or positions under discussion.

Elaboration

We can flesh out the natures of, and differences between, socialism and capitalism by considering three separate aspects: their respective (1) conceptions of human nature, (2) central values, and (3) public policies entailed, or at least suggested, by (1) and (2).

Human Nature. In each pair of the following aspects of human nature, socialist-inclined policy tends to advocate the first characteristic and capitalist-inclined policy advocates the second:

1. altruistic vs. self-interested
2. cosmopolitan vs. localized
3. unconstrained vs. constrained

Although socialism does not deny that human beings are motivated by self-interest, it nevertheless believes in human *altruism* in one, or in some combination, of the following ways: people are at least as altruistic as they are self-interested; people can, under the proper institutions, develop altruistic motivations that dominate self-interested ones; or people should act out of altruism—if not always, then much more than they do when under (quasi-) capitalist institutions. Moreover, socialism holds out as an ideal that people can come to view others as equally worthy of their concern, regardless of physical, or perhaps psychological, nearness. Some, like Peter Singer, view this as a matter of expanding the concentric circles of our sympathy, perhaps until they encompass all human beings—a universal brotherhood of man, as it were.⁴ Finally, socialism holds that human nature is not as *constrained* as others often take it to be; under different institutions, or with different experiences, human nature might be significantly different from what it currently appears to be.⁵ That means that socialism

⁴ See Singer 2011a. Singer wishes to expand the circle to include some nonhuman animals as well. See his 2011b: chap. 3.

⁵ I take this terminology from Sowell 2007a. Steven Pinker accepts Sowell's distinction between "unconstrained" and "constrained" visions of human nature, but prefers the terms "utopian" and "tragic," respectively; see Pinker 2002: chap. 16. See also Haidt 2012.

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is able to face the criticism that its prescriptions are inconsistent with human nature by responding: perhaps with human nature *as it currently appears*, but not necessarily *as it might be* constituted.

By contrast, capitalism tends toward the latter in each of the three aspects. Thus, it does not deny that human beings act out of altruism, yet it nevertheless holds one or some combination of the following theses about *self-interest*: human beings are fundamentally or predominantly self-interested; people's self-interest is a "natural" fact about them that cannot be eradicated by changing institutions; or there are some, perhaps many, arenas of human interaction in which acting from self-interest is not only allowable but even proper. Moreover, the objects of people's concern are naturally, and often properly, *localized* in the sense that they are part of people's individualized familiarity. They tend, that is, to deal with people, places, and facts known and familiar to people personally, rather than with global or other large-scale entities. Some, like Adam Smith, frame this position by conceiving of human concern for others as a scarce resource that must be husbanded to be effective—and can thus be dissipated by spreading too thin or invoking indiscriminately.⁶ Finally, as suggested by its conception of self-interest, capitalism presumes a more constrained vision of human nature, holding that human motivation and other important putative facts about human nature are more enduring and thus more immune from attempts at institutional engineering than other positions might suppose. As Bryan Caplan recently put it, instead of conceiving of human beings as something like clay that institutions and experiences can shape, capitalism conceives of them as more like pieces of hard plastic: concerted pressure can bend them somewhat, but they snap back into their original shape once released.⁷

An early but important qualification regarding these characteristics—altruistic vs. self-interested, cosmopolitan vs. localized, and unconstrained vs. constrained—is that they represent end-states along continua. Most positions fall somewhere along the continua rather than fully instantiating one of the ends. In his recent discussion, John Tomasi includes “[n]ew liberals, modern liberals, liberal democratic

⁶ See Smith's *Theory of Moral Sentiments* 1982: 137–43. Hereafter, this work is referred to as “TMS.”

⁷ See Caplan 2011: chap. 3.

theorists, prioritarians, sufficientarians, egalitarians of various stripes, or—at their most enthusiastic—high liberals” as all falling in the category he calls “left liberals.”⁸ Although one might argue about whether and to what extent any of those positions are properly called socialist, it can nevertheless be fruitful to think of them as not only tending toward political-economic centralism but also as falling on various places along the continua indicated—tending toward altruism, cosmopolitanism, and an unconstrained vision of human nature (all properly qualified, of course), rather than the reverse. On the other side of his spectrum, Tomasi includes “[c]lassical liberals, economic liberals, anarcho-capitalists, right-libertarians, or (as some insist) *real* liberals” under the heading “libertarian” (xi). I suggest thinking of these positions as falling somewhere along the continua indicated earlier, but tending in the other direction: toward decentralism, as well as self-interest, localism, and constrained human nature.

Values. Consider these potentially conflicting values:

1. Equality vs. liberty
2. Community vs. individual
3. Cooperation vs. competition

Socialism does not hold (as a descriptive claim) or endorse (as a normative claim) that equality, community, or cooperation are the *only* values or should *always* dominate their respective partners; similarly for capitalism on the other side. The claim, rather, is that socialism holds *equality* to be one of the most important moral and political values, whereas capitalism holds *individual liberty* to be the same. I present them here as opposed because, conceived in their respectively proper ways, they can easily conflict: instantiating socialism’s preferred conception of equality may entail curtailing some of the individual freedoms capitalism champions, and, for its part, instantiating capitalism’s conception of individual liberty may allow inequality along dimensions that worry socialism.

Similarly, while not denying altogether the importance of individuals, socialism tends to privilege the *community* or the society—its aims, purposes, and value—over those of the individual when the

⁸ See Tomasi 2012: xiii.

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two conflict. Marx referred to this as taking proper recognition of man’s “species being,” which for him involved commitments to certain universal social and moral perspectives rather than individual perspectives.⁹ By contrast, capitalism tends to take the side of the individual over that of the society when the two conflict. It holds that individuals are not only the fundamental units of social analysis, but that insofar as the community or the society exists, it is as an abstraction, not a reality, and thus it has no interests or purposes separate from those of individuals. Friedrich Hayek goes so far as to argue that the term “social justice” is, for this reason, a literally meaningless term—like “a moral stone.”¹⁰

Finally, socialism tends to value cooperation above competition. One of its central and abiding criticisms of capitalism is that its extreme rewards for success and punishments for failure encourage an almost ruthless competition among people. By contrast, as Michael Newman puts it, socialism is “based on the values of solidarity and cooperation,” which include “a relatively optimistic view of human beings and their ability to cooperate with one another” (2005: 3). Socialism values working together out of a joint spirit of other-regarding service, whereas capitalism values the initiative, innovation, and sense of accomplishment embodied in individual—and therefore competitive—striving. G. A. Cohen claims that socialism envisions human life as based on “communal reciprocity,” which he defines as an “antimarket principle according to which I serve you not because of what I can get in return by doing so but because you need or want my service, and you, for the same reason, serve me” (2009: 39). By contrast, according to economist Frank Knight, “the [capitalist] competitive economic order must be partly responsible for making emulation and rivalry the

⁹ See Marx’s essay “Alienated Labor” (*Selected Writings*, 1994: 58–68). See also Will Kymlicka’s essay “Marxism” (2002b). Rousseau makes a similar claim in his short essay, “Luxury, Commerce, and the Arts,” in which he prioritizes the good of the community above that of the individual. Indeed, Rousseau claims that as modern commercial society began to privilege the individual, “the State soon perished” (in Clark 2003: 395).

¹⁰ See Hayek 1978: 78. I think Hayek goes too far here. Granting that “society” or “community” has no material existence in the way human beings do, people still have both individual purposes *and* communal or corporate purposes—things they would like to achieve on their own or for themselves, as well as things they would like for their communities to achieve or accomplish. For discussion of this aspect of Hayek’s thought, see Schmidtz 2012.

outstanding quality of the character of the Western peoples who have adopted and developed it" (1997 [1935]: 39).

It is not that the socialist wants no competition and the capitalist wants no cooperation. The socialist understands that competitive mechanisms may sometimes be required to determine proper allocations of scarce resources; the capitalist argues that the free enterprise system indeed depends on widespread cooperation. But the socialist conceives of his preferred cooperation as *outcome-equality cooperation*, where all rise or fall together. Marx captures the socialist position in his 1848 *Manifesto of the Communist Party*: "the free development of each is the condition for the free development of all" (1994: 176). Adam Smith, a century earlier, described his preferred "obvious and simple system of natural liberty" as one in which "man has almost constant occasion for the help of his brethren" and in which "it is by treaty, by barter, and by purchase, that we obtain from one another the greater part of those mutual good offices which we stand in need of."¹¹ For Smith, then, the preferred conception of cooperation is *agent-equality cooperation*, where the cooperating parties are allowed equal freedom to consent or not. Given, therefore, the reliance of both socialism and capitalism on both cooperation and competition, perhaps the best way to understand this dichotomy is by considering their respective answers to the following question: All else being held equal, should we endorse institutions that promote joint decision making whereby people's material fortunes tend to rise or fall together, or those that promote individualized decision making whereby people take localized responsibility for their own material fortunes? All else being equal, socialism inclines toward the former, capitalism the latter.

One other important aspect that distinguishes the socialist conception of cooperation from the capitalist is the extent to which the people cooperating know each other. Cohen argues that cooperation should take place only when the cooperating parties know each other personally.¹² This informs his claim that under socialism each person serves others not because of what she can get from them, but because

¹¹ In Smith's *The Wealth of Nations* 1981 (1776), pp. 687, 26, and 27, respectively. Hereafter, this work is referred to as "WN."

¹² Cohen's claim here might seem to restrict the degree to which his position can be considered "cosmopolitan." But Cohen might argue that if we can expand our objects

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they need her help (2009: 38–45). I can serve your needs only if I know what they are, and I can know what they are only if I know quite a bit about you. The capitalist order, by contrast, relies on cooperation among people who do not know each other well, even among complete strangers. Take the computer on which I am writing this book: I have no idea where its parts were made, who made them, what people who made it were paid, or what alternatives were available to them aside from their contribution to this computer. To bring this computer to my desk required the efforts of literally thousands of people, the vast majority of whom are totally unknown not only to me but to each other as well. This is cooperation based not on personal knowledge, on personal bonds, or on personal affections; it is instead cooperation based on mutual self-interest across vast networks of unfamiliarity. The personal bonds that dictate socialist cooperation therefore involve a critical tradeoff, which we will explore more fully later, between the extent of cooperation and standards of living. Socialist theory is willing to sacrifice some of the gains that capitalist trade effectuates in order to ensure that people cooperate with the proper sense of joint purpose and mutual need-serving. Capitalist theory, alternatively, is willing to sacrifice the socialist demand for mutual need-serving based on personal familiarity in order to enable the far-flung cooperation among strangers that maximizes prosperity.

Policies. Socialism's and capitalism's respective conceptions of human nature and of value lead, finally, to the endorsement of public policies that distinguish them substantially. Two areas of policy in particular are implicated:

1. Public or common property vs. private property
2. Regulated exchange vs. free exchange

For socialism, the preference is for public or common property over private property, and for regulating economic exchange and decision making over allowing free exchange and decision making. Socialism's position on property was announced already in Marx's *Communist Manifesto*, which claims that a proper Communist revolution "cannot be effected except by means of despotic inroads on the rights of [private]

of concern to include all people in our community, then the "personal" can come to encompass the entire community.

property,” and articulates, as the first of its ten measures required for that revolution, “[a]bolition of property in land and application of all rents of land to public purposes” (Marx 1994: 175). Not all positions that tend in the socialist direction demand the abolition of private property, but they tend at least to be skeptical of it; hence socialists are not unwilling to endorse restrictions on private ownership—not only the “means of production,” which was Marx’s main concern, but also land and other assets—as well as limits on the property’s potential uses. And while capitalists, or at least some of them (like Adam Smith), are willing to consider the benefits of public or common ownership of some property, they nevertheless maintain a strong preference for private ownership. John Locke captures both the preference for and the slight reservation about private property in his 1690 *Second Treatise of Government*: “Whatsoever then [a person] removes out of the State that Nature hath provided, and left it in, he hath mixed his *Labour* with, and joyned to it something that is his own, and thereby makes it his *Property* [...] at least where there is enough, and as good left in common for others” (§27, p. 288). Locke argues that, even given that God “hath given the World to Men in common” (§26, p. 286), it nevertheless is possible for individual people to gain private and exclusive title to some parts of the world formerly held in common. Yet there are limits to this appropriation, limits that constrain what we might otherwise believe, using Locke’s language, we have a “natural right” to possess. Despite these acknowledgments in the opposite direction, as it were, the socialist and the capitalist maintain a clear preference for public or common property and for private property, respectively—a preference robust enough to indicate an important economic principle that will round out the general description of each.

The socialist’s preference for public property entails a concomitant preference for regulated economic exchange and decision making. This is actually a two-step preference. The initial step after endorsing public property is toward *centralized decision making*: if we all own, say, our nation’s natural resources in common, then we should all decide collectively how to employ them. But that, it turns out, is a logistical impossibility. It is not possible to get everyone’s literal permission before a decision is made about how to employ any natural resource. As Locke points out, “[i]f such a consent as that were necessary, Man had starved, notwithstanding the Plenty God had given him” (*Second*