



# 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

## TABLE OF CONTENTS

### Letter from the Editors

by Scott W. Atlas and  
Edward P. Lazear

### Capitalism, Socialism, and Freedom

by Peter Berkowitz



A Publication of the Hoover Institution



# Capitalism, Socialism, and Freedom



By Peter Berkowitz, *Tad and Dianne Taube Senior Fellow, Hoover Institution*

## Abstract

Despite the fundamental distinction between the two, misunderstandings of capitalism and socialism — and their implications for freedom — abound, and usually in favor of socialism. In these circumstances, a return to the basics is warranted. The 17th-century writings of John Locke in defense of political and economic freedom and the 19th-century critique by Karl Marx of political and economic freedom represent classics of the genre. Fresh examination of their ideas brings into better focus the case for freedom and the reasons for concluding that the defense of the free market is central to the securing of individual freedom and equality under law.

## I. Introduction

The classic distinction between capitalism and socialism is straightforward. In capitalism, private individuals make the major decisions about production, distribution, and consumption, and, under the rule of law, government protects a far-reaching right to private property. In socialism, the state makes the major decisions about production, distribution, and consumption and retains a direct say about who gets what property and how it is employed. Capitalism is compatible with the state's provision of a social safety net — that is, the guarantee of a material minimum below which citizens are not allowed to fall — but not with top-down management of economic life, which is the hallmark of socialism.

Despite the fundamental distinction between the two, misunderstandings of capitalism and socialism — and their implications for freedom — abound, and usually in favor of socialism. Indeed, socialism is seen as a desirable political and economic arrangement especially among the young. According to a Gallup poll from April 2019, 58% of US residents ages 18 to 34 think “some form of socialism” would be a good thing for the country, while only 37% think it would be a bad thing.<sup>1</sup> In a Harris poll done the same month, nearly half of the 18- to 44-year-olds surveyed said they would rather live in a socialist country than a capitalist one.<sup>2</sup>

Most Americans who are well-disposed toward socialism do not have in mind the classic definition: state ownership of

the means of production and government planning of the economy. Rather, they identify socialism with a progressive political agenda. They think of European social democracy. They tend to oppose the use of military force and favor fewer restrictions on immigration. They want changes such as a higher minimum wage, national health care, stronger unions, community grounded in shared values and mutual concern, and increases in public resources devoted to protecting the environment. They generally do not dream of abolishing private property or radically redistributing wealth, but rather seek to expand government regulation for the public safety, health, and welfare and to use progressive taxation to reduce the gaps between rich and poor that have widened in recent decades.

These concerns and aspirations are not identical to socialism. Some overlap with conservative apprehensions that advanced liberal democracies weaken traditional bonds of friendship and citizenship, unleash rampant individualism, and foster the unfettered pursuit of material wealth. But — as Friedrich Hayek argued in *The Road to Serfdom* (1944), his bracing analysis of the 20<sup>th</sup>-century political and intellectual trends that favored socialism and so threatened freedom — socialism can come about indirectly, incrementally, and inadvertently. Acting on today's progressive agenda — most items of which tend to strengthen the central government's power over the economy — would solidify institutional foundations for, and condition citizens to acquiesce in, a form of government command of and control over the economy that undercuts freedom.

The prevalence of misconceptions about socialism obscures the dangers. Many Americans, especially younger ones, think the Nordic countries of northern Europe represent the triumph of socialism even though their economic systems, to a significant extent, reflect the spirit of capitalism. Many Americans, especially younger ones, are unaware of the blatant failure of socialism as an organizing principle for politics and the economy — in the former Soviet Union, in Cuba, in Venezuela, and, indeed, everywhere else it has been tried. Many Americans, especially younger ones, are ignorant of the tens of millions who were slaughtered by communism — the most influential form of socialism — in the 20<sup>th</sup> century in the name of an idyllic future that never arrived. Many Americans, especially younger ones, have scant understanding of the role of limited government

in protecting individual freedom and market economies. Many Americans, especially younger ones, have little concrete appreciation of how wealth is produced. And many Americans, especially younger ones, are unacquainted with capitalism's stunning track record in lifting hundreds of millions around the world out of the grinding poverty that has been the typical lot of ordinary people throughout history, and in creating prosperous middle classes across nations and civilizations.

In these circumstances, in which people speak with casual authority about capitalism and socialism but display a poor grasp of the two systems' premises and their implications for freedom, a return to the basics is warranted. The 17<sup>th</sup>-century writings of John Locke in defense of political and economic freedom and the 19<sup>th</sup>-century critique by Karl Marx of political and economic freedom represent classics of the genre. Fresh examination of their ideas brings into better focus the case for freedom and the reasons for concluding that the defense of the free market is central to the securing of individual freedom and equality under law.

## II. John Locke: The Foundations of Political and Economic Freedom

The publication of John Locke's *Two Treatises of Government* in 1689 followed fast on the heels of England's Glorious Revolution of 1688, but the work was conceived well before it. Although the book provides grounds for justifying the events that culminated in the vindication of the nation's traditional rights and freedoms through William of Orange's and Mary II's ascents to the throne, Locke's argument in the *Two Treatises* focuses not on any particular political controversy but on the foundations of political legitimacy in general.

Locke's influence on ideas about freedom derives in large measure from the *Second Treatise*, the first chapter of which distills the *First Treatise's* devastating arguments against divine-right monarchy. At the time, the kings of England and throughout Christian Europe claimed title to rule on the grounds that, as direct descendants of Adam, they inherited dominion over their subjects and their kingdoms. Arguing on the basis of the biblical authority to which the kings appealed, Locke shows that Adam lacked dominion over his children and the world; that even if he possessed it, dominion did not transfer to his children and their heirs; that even if dominion had transferred to his children and their heirs, rules were lacking for determining which of the multiplying heirs inherited the right to rule; and that even if such rules existed, the passage of time had hopelessly obscured the lines of descent that would allow for reliable application of the rules.<sup>3</sup>

Locke draws a stark conclusion: if political power rests exclusively on divine-right monarchy, and if the arguments for divine-right monarchy are irredeemably flawed, then existing governments lack political legitimacy unless a satisfactory alternative can be discovered:

He that will not give just occasion to think that all government in the world is the product only of force and violence, and that men live together by no other rules but that of beasts, where the strongest carries it, and so lay a foundation for perpetual disorder and mischief, tumult, sedition, and rebellion, (things that the followers of that hypothesis so loudly cry out against) must of necessity find out another rise of government, another original of political power, and another way of designing and knowing the persons that have it...<sup>4</sup>

The explicit purpose of Locke's *Second Treatise* is, in light of the refutation of the arguments for divine-right monarchy, to define political power accurately and to determine the conditions under which it is appropriately exercised. Locke does not claim that existing governments are inherently illegitimate but rather that the standards for establishing their legitimacy have not been properly grasped.

Political power is, according to Locke, "a *right* of making laws with penalties of death, and consequently all less penalties, for the regulating and preserving of property, and of employing the force of the community, in the execution of such laws, and in the defense of the commonwealth from foreign injury; and all this only for the public good."<sup>5</sup> Locke understands property broadly; for him it includes the rights all human beings share. The protection of property — broadly understood to include the rights all human beings share — limits government power. Those limits, however, are subject to constant negotiation and renegotiation. The need to regularly reconsider and revise the boundaries of political power stems from the uncertainties and ambiguities that surround the crafting of appropriate rules and regulations; the various beliefs, habits, and associations that preserve property; and the mix of elements that compose the public good. The perpetual challenge of line-drawing does not alter Locke's view that the protection of property broadly understood is a cornerstone of freedom and the central task of politics.

Locke's definition of political power is grounded in the all-important premise that human beings are by nature free and equal. By this Locke did not mean that human beings are free in every way and equal in all respects. We are naturally free in the politically relevant sense of the term, he contended,

because no human being possesses an inherent right to control another's actions, dispose of another's property, or dictate another's beliefs. Hence, all human beings are naturally equal inasmuch as none is born subjugated under law, or with title to rule another.<sup>6</sup>

Locke's account of "the state of nature" — through which he illuminates the moral, political, and legal significance of our natural freedom — is much maligned. It supposedly fails to supply a rigorous historical account of the origins and development of political society, overlooks the social dimensions and psychological and spiritual complexity of human nature, and celebrates an untrammelled freedom of the individual. These objections rest on a misunderstanding of Locke's intention and a flawed reading of his analysis. Locke examines human beings in a pre-political context not because he believes that persons can prosper outside of political society but to illuminate the pre-political core of individual rights. Indeed, his account of the state of nature sheds light on why political society is crucial to human flourishing. And it explains why reaping freedom's benefits depends on mutually agreed-upon political institutions that circumscribe the exercise of private judgment.

Although a pre-political condition, the state of nature is not a pre-moral one. According to Locke, "The *state of nature* has a law of nature to govern it, which obliges every one: and reason, which is that law, teaches all mankind, who will but consult it, that being all *equal and independent*, no one ought to harm another in his life, health, liberty, or possessions."<sup>7</sup> But what is the likelihood that those who dwell in the state of nature will consult the law of nature and that those who consult it will comply with it?

Over the intermediate term and long term, Locke believes, the likelihood is vanishingly small. In the state of nature each has a perfect freedom to decide for himself or herself what reason requires, permits, and forbids. Such freedom, Locke maintains, subverts the security and stability that make freedom valuable. In the absence of settled laws issued by an agreed-upon authority, of recognized enforcement mechanisms, and of established authorities for resolving disputes, persons with the unconstrained right to exercise their private judgment will tend to give priority to their own interests in interpreting what is just and proper and so will be inclined to resolve disputes in their own favor. The state of nature's perfect freedom gives rise to constant conflict among individuals while leaving them without an agreed-upon political authority for the peaceful resolution of their inevitable disputes. As a result, the state of nature ineluctably deteriorates into what Locke called "the state of war" — a condition of "enmity, malice, violence, and mutual destruction." The absence of government, Locke shows,

destroys the benefits that arise from natural freedom and equality.<sup>8</sup>

Although it is often asserted that Locke denies that human beings are by nature social and political animals, his analysis of the state of nature's swift collapse into a state of war actually shows the opposite. It reveals that individuals were made for society because in order to enjoy the freedom and equality that inheres in all persons, individuals must devise ways to limit under law the exercise of their shared right to make and enforce private judgments about justice and injustice.<sup>9</sup>

Locke maintains that to deserve obedience, laws — and the political institutions for making, enforcing, and adjudicating disputes about them — must be grounded in consent.<sup>10</sup> Consent is a prerequisite for law's legitimacy because of natural freedom and equality. Since none has the right to rule over another, an individual can only properly be subject to a law that issues from a set of basic procedures to which he or she has agreed. One needn't favor a particular law to have incurred an obligation to obey it. But consent to the larger framework from which laws emerge does give rise to an obligation to obey even the particular laws of which one disapproves.

Locke knows perfectly well that in the vast majority of cases those living under laws will never directly have been involved in legislation and will not have *expressly* — that is, explicitly and formally — consented to the larger lawmaking process. But he reasons that those who voluntarily live under laws that protect their property and keep government within its proper limits *tacitly* consent as long as they stay put and enjoy the laws' benefits while retaining the right to leave.<sup>11</sup> Individuals, Locke recognizes, are sure to disagree with this law or that. But if the disagreeable law has issued from a basic constitutional framework and settled governmental process that they can reasonably be seen to have accepted — explicitly or implicitly — then individuals are obliged to obey it.

The doctrine of consent — express and tacit — is subject to a variety of objections. But the core idea is a bedrock tenet of the modern tradition of freedom: the legitimacy of law depends on the ability of persons subject to it to understand it as the result of fundamental political institutions of which they approve.

Political freedom for Locke is indissolubly bound up with economic freedom and religious freedom. Laws that infringe upon individuals' basic decisions about property — including the property one has in the fruits of one's labor

— and about faith exceed the limits of political power and nullify the overriding purpose for which government is established.

In the *Second Treatise*, Locke highlights economic freedom. The right to property entails control, not subject to the dictates of other human beings, over properly acquired land and objects as well as over oneself, including one's thoughts, actions, and body. It derives, according to Locke, from "the property every individual has in his own *person*; this nobody has any right to but himself." It follows, he argues, that "[t]he labour of his body, and the work of his hands, we may say, are properly his."<sup>12</sup> With the invention of money, which serves as a recognized and enduring store of value, human beings acquire an incentive to produce more than they immediately need. While this redounds to the advantage of all, it particularly advances the interests of "the industrious and rational,"<sup>13</sup> who earn more from cultivating the land and producing food, making clothes and tools, constructing physical infrastructure, and performing the multiplicity of functions and providing the vast array of services that others value. But everybody benefits because of the dramatic increase in goods and services owing to the increasingly profitable division of labor and specialization of workers. The ability to exchange the fruits of one's labor and labor itself for money — accompanied by laws that protect private property — allows each to concentrate in one area and produce more of some good or service than would have been possible if each had to produce all of the commodities he or she consumed.

In *A Letter Concerning Toleration* (1689), Locke focuses on religious freedom. Religion pertains to the supreme duty, the duty that an individual owes to God. Since faith cannot be coerced and remain faith, toleration of differences of opinion about religion and of varying forms of worship, argues Locke, is an imperative of reason as well as faith. Consistent with Jesus's exhortation to give to Caesar the things that are Caesar's and to God those that are God's,<sup>14</sup> Locke holds that government has no business prescribing religious belief and practice just as the clergy has no authority to determine the civil law. The job of government is limited to protecting property, even as property is understood to include the property each individual has in himself or herself and thus in the natural rights all share. At the same time, the proper purview of religion is to direct to salvation. Provided that individuals observe the generally applicable laws of the land — and provided that these laws do not regulate beliefs and do not outlaw actions that, were they not performed as part of a religious ceremony, would be perfectly acceptable — individuals must be free to believe and practice their faith in accordance with their conscience.

Locke recognizes that respect for private property along with the virtues of industry, rationality, and toleration do not develop automatically. They are the result of a specific kind of education: an education for freedom. Like every form of education, the education for freedom that Locke envisages involves the limitation of freedom and the discipline of the passions through the subordination of the whims and will of the student to the superior knowledge of the teacher. At the same time, an education for freedom imposes restrictions on the restrictions imposed on students' freedom as well as on parents' duty to educate their children. In chapter VI of the *Second Treatise*, Locke emphasizes that the purpose of education, and the justification for parents' and teachers' authority over children, is to prepare students for the reasonable exercise of freedom. In his book-length treatment *Some Thoughts Concerning Education* (1694), Locke explores the many stages of an education for freedom, proceeding from infancy to young adulthood, and examines the wide range of virtues that go into the formation of free men and women.<sup>15</sup> For Locke, exercises of parental authority that cannot be justified as contributing to the formation of free men and women cannot be justified.

One critical exercise of the virtues of freedom is in the determination that government has lost its legitimacy. Although he is commonly thought of as setting forth a pioneering justification for revolution grounded in natural rights, Locke emphasizes the conditions under which governments, whose legitimacy consists in their securing of those rights, destroy the obligations that citizens owe them to respect the law. He argues in chapter XIX of the *Second Treatise* that government's betrayal of citizens' trust through the protracted, systematic, and irreparable subversion of individual freedom terminates citizens' obligation to obey the law and throws individuals into a state of nature. The wise exercise of the perfect freedom into which the dissolution of government condemns individuals, Locke makes clear, consists in the first place in setting up new forms of government that will secure their rights by limiting the freedom of each and thereby protecting the rights of all.

A century later, such ideas about political and economic freedom exerted a decisive influence on those who declared American independence and drafted and ratified the US Constitution.

### III: Karl Marx: The Critique of Political and Economic Freedom

Without acknowledging it, Karl Marx's critique of liberal democracy and of free-market capitalism presupposes a version of Locke's starting point — the freedom and

equality of all. But whereas Locke concludes that limited government grounded in individual freedom and human equality provides the best security for private property and faith, Marx believes that limited government poisons the individual freedom that is our birthright as human beings by protecting private property and faith.

The crux of Marx's criticism is that political societies based on individual rights, the consent of the governed, and free markets enslave individuals to delusive ideas that provide popular justifications for unjust social and political arrangements that entrench gross inequality. The extraordinary appeal that Marx's sweeping indictment of political and economic freedom has enjoyed around the world springs from genuine insights into the persistent discontents that free societies generate. Yet the historical record concerning free societies and Marxist regimes tells a dramatically different story than that told by Marx and by his legions of followers: the gap between the promises free societies declare and the way of life they make possible is increasingly small, especially compared to the enormous gulf between the extravagant promises put forward by societies based on Marxist principles and the pervasive oppression and poverty they have invariably produced.

In the [preface](#) to *A Contribution to the Critique of Political Economy* (1859), Marx offers a succinct statement of his theory of ideology. The key notion is that the dominant ideas and norms that emerge in particular societies are not objective and independent but rather reflect and rationalize existing economic practices and institutions. These modes of production, consumption, and distribution serve as the base on which an ideological "superstructure" arises. Individuals may believe that they deliberate about and choose their moral, political, and religious ideas. In reality, argues Marx, one's place in the division of labor dictates one's convictions about what is proper, just, and true: "It is not the consciousness of men that determines their existence," he asserts, "but their social existence that determines their consciousness." It follows, Marx teaches, that individual rights, the consent of the governed, private property, and religious freedom — the essential elements of free societies — do not proceed from a rational analysis of the human condition. Rather, to maintain their positions of power, bourgeois beneficiaries use the principles of political and economic freedom as intellectual weapons to persuade workers that their lowly place in society is appropriate and just.

In the first part of *On the Jewish Question* (1843), Marx identifies the chief ideological sleight of hand by which liberal democracies keep citizens in thrall. Exemplified by the United States in the mid-19<sup>th</sup> century, liberal democracy promises citizens what Marx calls "political

emancipation" — that is, freedom from the authority of the state, particularly in matters of faith and private property. The protection individuals enjoy in their private homes and in their houses of worship to practice their faith and to pass their beliefs down to their children is, from Marx's point of view, a thoroughly pernicious consequence of political emancipation. Religion, he believes, is an illusion that induces workers to accept tranquilly their degraded condition and prompts members of the bourgeoisie to arrogantly believe that they are entitled to their wealth and political power. He concludes, therefore, that the freedom delivered by liberal democracy is fraudulent. The separation of church and state — "the emancipation of the state from religion" — keeps human beings subject to religion's degrading authority. The proper political goal, Marx insists, is to secure "the emancipation of the real man from religion." Similarly, when the state — consistent with the claims of political and economic freedom — abolishes the property qualification for voting, it does not eliminate the political significance of private property but instead entrenches it outside of state control. Thus, according to Marx, "[t]he division of the human being into a *public man* and a *private man*" fostered by the right of private property and the consequent "*displacement* of religion from the state into civil society" do not form "a stage of political emancipation but its completion; this emancipation, therefore, neither abolished the *real* religiousness of man, nor strives to do so."

To free human beings from the pernicious grip of religion and private property is the aim of "human emancipation," the true and final form of emancipation. This occurs, however,

[o]nly when the real, individual man re-absorbs in himself the abstract citizen, and as an individual human being has become a species-being in his everyday life, in his particular work, and in his particular situation, only when man has recognized and organized his 'own powers' as social powers, and, consequently, no longer separates social power from himself in the shape of political power, only then will human emancipation have been accomplished.

Throughout his writings, Marx argues that the comprehensive reconciliation of the individual and the collectivity encapsulated in the idea of "human emancipation" depends on the replacement of the brutal economic relations that prevail under capitalism by new forms of economic life that satisfy the deepest and most widely shared human needs and the highest human aspirations.

In “[Estranged Labor](#)” — an extended fragment taken from a work Marx himself did not publish but which appeared in 1932 under the title, “Economic and Philosophic Manuscripts of 1844” — Marx spells out four forms of the estrangement from, or alienation of, labor. All, he claims, arise from the irresistible logic of capitalism’s division of labor and modes of production. All reflect the exploitation of “propertyless workers” by wealthy “property owners.” All, he will subsequently maintain, are overcome under communism. Underlying Marx’s analysis is the belief that a political and economic system that denies human beings the ability to satisfy their loftiest longings through the activities by which they earn a living is fundamentally unjust.

First, capitalism estranges workers from “the product of labor,” which they experience as an “alien object.” Instead of producing for their own use, workers participate in a single, isolated stage of the production process to create commodities that factory owners sell for their profit and for someone else’s use. As a consequence, workers’ labor represents “not the satisfaction of a need” but rather “a means to satisfy needs external to it.”

Second, capitalism estranges workers from “the act of production.” Tools, assembly lines, and the organizational structure of factories do not give expression to workers’ preferences and choices but rather comprise harsh necessities that curtail their responsibilities and erode their independence.

Third, capitalism estranges workers from “man’s species-being,” which, according to Marx, is “free, conscious activity.” As he recognizes, “animals also produce” — for example, nests, hives, and dams. But such production is ingrained, automatic, and always more or less the same. Only human beings are capable of transforming nature on the basis of ideas they develop and adjust, and in accordance with standards they adopt and revise. In depriving workers of the “spontaneous, free activity” that is at the root of individuals’ shared humanity, capitalism cheats workers of what is most their own.

Fourth, capitalism estranges workers from fellow human beings: “What applies to a man’s relation to his work, to the product of his labor and to himself, also holds of a man’s relation to the other man, and to the other man’s labor and object of labor.” The inability to recognize one’s own humanity results in the inability to recognize the humanity of others.

Despite this ghastly description of workers’ experience under capitalism, Marx brings good news. In [The Manifesto](#)

[of the Communist Party](#) (1848), he argues that the era of capitalist exploitation and estrangement is coming to an end, and with it the contradictions and injustices that have marked all previous eras. This can be known rigorously, Marx contends, because history is determined by objective laws reflected in the “prevailing mode of economic production and exchange.”

All history, according to Marx, has been characterized by class struggle, by the “constant opposition” of “oppressor and oppressed.” His own epoch, “the epoch of the bourgeoisie,” also pits the oppressed against the oppressors. But it has “simplified class antagonisms” and in the process brought out into the open the struggle between the comfortable bourgeois property owners and the debased and immiserated workers. It has also assigned to the bourgeoisie “a most revolutionary part.”

The bourgeoisie are unwitting revolutionaries. By reducing economic and political life to the pursuit of self-interest, they create the conditions that make possible the overcoming of the traditional “religious and political illusions” that have tranquilized workers and induced them to accept their exploitation at the hands of the bourgeoisie as an expression of the way things ought to be. As a result, the bourgeois epoch is inherently unstable. Whereas all previous epochs were based on preserving inherited modes of production and the inherited justifications for them, “[c]onstant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch.”

Although a prelude to the thoroughgoing elimination of oppression and alienation, the bourgeois epoch is not liberating in the manner intended by the bourgeoisie:

All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind.

At the same time that capitalism enables members of the proletariat to understand accurately the quality and scope of their oppression, it also produces a globe-covering market driven by dramatic improvements in transportation and communications. The new mobility and the new capacity to exchange information at a distance transform workers around the world into a universal class whose members

grasp their shared interests. These interests transcend state boundaries and cultural, national, and religious differences. Capitalism is “like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells.” It prepares its own destruction by enabling workers to apprehend their common exploitation and to unite worldwide in opposition against their oppressors. “All previous historical movements were movements of minorities, or in the interest of minorities,” Marx exults. “The proletarian movement is the self-conscious, independent movement of the immense majority, in the interest of the immense majority.”

The fall of the bourgeoisie and the victory of the proletariat are, Marx writes, “equally inevitable.” But notwithstanding his conviction that his conclusion carries the authority of science, Marx is notoriously vague on what the victory of the proletariat entails.

His most famous utterance on the shape of communist society appeared in *Critique of the Gotha Programme* (1875), which followed publication of the first volume of his magnum opus, *Capital* (1867–1883). Marx expresses in 1875 the same conviction as in his earliest philosophical writings: the all-embracing overcoming of conflict in politics and society is necessary, possible, and just around the corner. After emancipating individuals from private property and faith, repairing the split between physical and mental work, and reconciling individual development with social and economic cooperation, communism will replace the protection of rights with a form of social organization tailored made to each individual’s unique condition: “From each according to his ability, to each according to his needs!” The implementation of such a formula would require a central authority of the highest wisdom, purest integrity, and most complete control. The gruesome consequences of communist rule across cultures and around the world testify to the folly of assigning to national governments and international politics such lofty capacities, exalted responsibilities, and unlimited powers.

#### **IV. The Dependence of Political and Economic Freedom on Liberal Education**

Why did communism fail, and liberal democracy prosper?

In the 19<sup>th</sup> century, Marxism responded to genuine problems afflicting emerging liberal democracy and free-market capitalism. Factory owners exploited workers — men, women, and children — by subjecting them to debilitating working conditions and exhausting hours. Notwithstanding the justice in this critique, Marxism — along with the many

less-influential varieties of socialism — suffered from several fundamental flaws.

First, Marx wildly underestimated the self-correcting powers of liberal democracies and free markets. He and his legions of followers failed to grasp the capacity of liberal democracies to acknowledge injustice, reform institutions to better serve the public interest, and pass laws that would bring the reality of political and economic life more in line with the promise of individual rights and equal citizenship. In addition, Marxism did not appreciate the amazing productive forces unleashed by capitalism. Free enterprise has not immiserated the working class as Marx insisted it must. To the contrary, undergirded by private property and the rule of law, free markets have proved history’s greatest antidote to poverty and have around the world raised basic expectations and norms concerning the material prerequisites of a decent life to levels unimaginable in Marx’s time and even a few generations ago.

Second, Marx presumed to possess final and incontrovertible knowledge about the necessary unfolding of human affairs from the earliest forms of civilization to the present. In reality, Marx produced, and Marxists have routinely embraced, a one-dimensional account of history based exclusively on the conflict between oppressors and oppressed, as if no other factors influenced morality, economics, and politics. The one-dimensionality of Marx’s analysis is bound up with its reductionism. Marxist history proceeds as if tradition, culture, faith, and justice were irrelevant, except as components of a code that, when properly deciphered, exposes the deceptions by which the powerful perpetuate the bondage of the weak.

Third, Marx succumbed to the utopian spirit. Despite his voluminous writings, he gave scant attention to the structure of politics or the habits and institutions that would organize the economy in the era that he maintained would follow the overcoming of liberal democracy and capitalism. He assumed that social and political disharmony of every sort would vanish with the setting aside of rights, the dissipation of religion, and the abolition of private property. This extravagant conceit was in no small measure a consequence of his failure to reckon with the variety of passions and interests that motivate human beings, the rootedness of persons in particular traditions and communities, the limits of human knowledge, and the institutional arrangements that enable government to advance the public’s interest in individual freedom and human equality.

In each of these respects liberal democracy has demonstrated its manifest superiority. First, liberal democracies both limit and empower the people. Government’s protection



of individual rights sets boundaries on what majorities through their elected representatives can authorize even as the grounding of legitimate exercises of power in the consent of the governed gives majorities solid legitimacy and wide scope to enact laws, in accordance with changing circumstances and enduring principles, that serve the public interest.

Second, liberal democracy does not rest on a theory of history but rather on a conviction about human beings — that all are born free and equal and that rights inhere in each and every human being. Instead of reducing ideas to expressions of economic relations, liberal democracy affirms that economic relations should reflect the idea of individual freedom. Government secures individual rights by, in the first place, protecting private property and religious freedom. The state leaves the preponderance of decisions about work and consumption as well as religious belief and practice in the hands of individuals who, whatever the imperfections in their understanding, are likely to grasp their own interests better than would government bureaucrats.

Third, liberal democracy is grounded in the anti-utopian premise that the tendency to abuse power is fairly evenly distributed among human beings. This does not negate the belief in fundamental rights that all persons share or deny the need for, and the possibility of, decent character in citizens and office holders. From the perspective of liberal democracy, each is equally free. Each is a mix of wants and needs, appetites and longings, fears and hopes that frequently distort judgment and defeat reason. And each is capable of acquiring at least a basic mixture of the virtues of freedom. Because of its understanding of the multiple dimensions of human nature, liberal democracy attaches great importance to the design of political institutions. The aim is to secure freedom from the passions and prejudices of the people as well as those of their elected representatives. Good institutional design does this by playing the passions and prejudices against one another while providing incentives for the exercise of reason, deliberation, and judgment.

Why are these basic notions about Marxism and liberal democracy so poorly understood today?

In *The Road to Serfdom*, Hayek suggests that a crucial step in the institutionalization of the central planning essential to socialism is a concerted attack on liberty of thought and discussion. To consolidate support for the one true state-approved economic plan, it is necessary to ensure that a uniform view prevails among the citizenry: “The most effective way of making everybody serve the single system of ends toward which the social plan is directed is to make everybody believe in those ends.”<sup>16</sup>

This requires, among other things, that universities — eventually the entire educational system — abandon the traditional goal of liberal education, which is to transmit knowledge, cultivate independent thinking, and encourage the disinterested pursuit of truth. Instead, institutions of higher education must be conscripted into the cause. That involves the transformation of colleges and universities into giant propaganda machines for the inculcation and reaffirmation of the officially approved views.

The condition of higher education in America suggests that that transformation is well underway. It is increasingly rare, for instance, for colleges and universities to teach students the principles of individual liberty, limited government, and free markets along with the major criticisms of them, thereby both imparting knowledge to students and fostering their ability to think for themselves. Instead, our institutions of higher education often nurture a haughty and ill-informed enthusiasm for socialism and an ignorant disdain for political and economic freedom.

In doing so, higher education builds on dogmas increasingly inculcated at earlier stages. Take, for example, California, which is the most-populous state in America and, if it were a sovereign nation, would boast the fifth-largest economy in the world. Last year, the state’s Department of Education released a draft “Ethnic Studies Model Curriculum” prepared by teachers, scholars, and administrators. Suffused with social-science jargon and dedicated to a highly partisan social-justice agenda, the model curriculum names capitalism as a “form of power and oppression” and associates it with such sins as “patriarchy,” “racism,” and “ableism.”<sup>17</sup> The fashionable terminology builds on longstanding charges against the free-market system: capitalism rewards greed and selfishness, divides people into oppressed and oppressor classes, fosters atomized individuals, erodes community, and produces massive and obscene forms of inequality. Apparently, California’s experts did not see the point of including in the curriculum the other side of the argument.

To continue to enjoy the blessings of political and economic freedom, it will be crucial to recover the practice of liberal education.

## Notes

<sup>1</sup> Gallup poll conducted April 17–30, 2019, available at <https://news.gallup.com/poll/257639/four-americans-embrace-form-socialism.aspx>.

<sup>2</sup> Harris poll conducted April 16–18, 2019, available at <https://assets.documentcloud.org/documents/6145923/Axios-Tabs-1.pdf>.

<sup>3</sup> *Second Treatise*, Chap. I: Sect. 1. Hereafter, references will be to ST followed by chapter numbers and section numbers.

<sup>4</sup> ST I:1.

<sup>5</sup> ST I:3.

<sup>6</sup> ST II:4.

<sup>7</sup> ST II:6.

<sup>8</sup> ST III:19.

<sup>9</sup> ST II:7-8, VII:87.

<sup>10</sup> ST VII:87-89, VIII:95-99.

<sup>11</sup> ST VIII:119-121.

<sup>12</sup> ST V:27.

<sup>13</sup> ST V:34.

<sup>14</sup> Mark 12:17.

<sup>15</sup> Locke emphasizes that generally and for the most part his advice for education of sons applies to the education of daughters. *Some Thoughts Concerning Education*, Sect. 6.

<sup>16</sup> *The Road to Serfdom: Text and Documents*, ed. Bruce Caldwell (Chicago: The University of Chicago Press, 2007), p. 171.

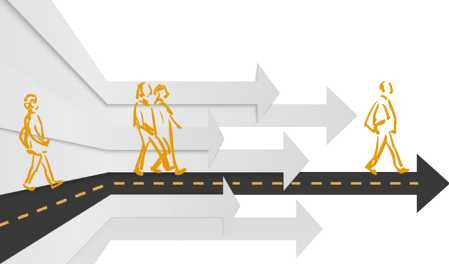
<sup>17</sup> “Ethnic Studies courses, teaching, and learning will ... critique empire and its relationship to white supremacy, racism, patriarchy, cisheteropatriarchy, capitalism, ableism, anthropocentrism, and other forms of power and oppression at the intersections of our society,” available at <https://assets.documentcloud.org/documents/6294294/Ethnicstudies-Intro-Overviewsmc.pdf>.



### **Peter Berkowitz**

*Senior Fellow, Hoover Institution*

Peter Berkowitz is the Tad and Dianne Taube Senior Fellow at the Hoover Institution, Stanford University. His writings are posted at [peterberkowitz.com](http://peterberkowitz.com) and he can be followed on Twitter @BerkowitzPeter. He is also director of the State Department’s Policy Planning Staff and a member of the department’s Commission on Unalienable Rights. The views expressed are his own and do not necessarily reflect those of the United States government.



# 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.

## CO-CHAIRS

Scott W. Atlas

*Robert Wesson Senior Fellow*

Edward Paul Lazear

*Morris Arnold and Nona Jean Cox Senior Fellow*

## PARTICIPANTS

Ayaan Hirsi Ali

*Research Fellow*

Terry Anderson

*John and Jean De Nault Senior Fellow*

Peter Berkowitz

*Tad and Dianne Taube Senior Fellow*

Russell A. Berman

*Senior Fellow*

Michael J. Boskin

*Wohlford Family Senior Fellow*

John H. Cochrane

*Rose-Marie and Jack Anderson Senior Fellow*

John F. Cogan

*Leonard and Shirley Ely Senior Fellow*

Larry Diamond

*Senior Fellow*

Elizabeth Economy

*Distinguished Visiting Fellow*

Niall Ferguson

*Milbank Family Senior Fellow*

Stephen Haber

*Peter and Helen Bing Senior Fellow*

Robert E. Hall

*Robert and Carole McNeil Senior Fellow*

Victor Davis Hanson

*Martin and Illie Anderson Senior Fellow*

Caroline M. Hoxby

*Senior Fellow*

David L. Leal

*Senior Fellow*

Bjorn Lomborg

*Visiting Fellow*

Michael McConnell

*Senior Fellow*

H. R. McMaster

*Fouad and Michelle Ajami Senior Fellow*

Lee Ohanian

*Senior Fellow*

Condoleezza Rice

*Thomas and Barbara Stephenson Senior Fellow*

Amit Seru

*Senior Fellow*

John B. Taylor

*George P. Shultz Senior Fellow in Economics*

John Yoo

*Visiting Fellow*



The publisher has made an online version of this work available under a Creative Commons Attribution-NonCommercial license 4.0. To view a copy of this license, visit <http://creativecommons.org/licenses/by-nc/4.0>. Efforts have been made to locate the original sources, determine the current rights holders, and, if needed, obtain reproduction permissions. On verification of any such claims to rights in the articles reproduced in this book, any required corrections or clarifications will be made in subsequent printings/editions. Hoover Institution assumes no responsibility for the persistence or accuracy of URLs for external or third-party Internet websites referred to in this publication, and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Copyright © 2020 by the Board of Trustees of Leland Stanford Junior University

## Hoover Institution

Stanford University  
434 Galvez Mall  
Stanford, CA 94305-6003  
650-723-1754  
[hoover.org](http://hoover.org)

## Hoover Institution in Washington

The Johnson Center  
1399 New York Avenue NW, Suite 500  
Washington, DC 20005  
202-760-3200

