The Case for Libertarian Capitalism

There are many arguments for a libertarian capitalist system. They can be found in the writings of philosophers, economists, and other theorists as well as in the popular culture of some societies. In this chapter, I will present what I see as the three most important arguments for capitalism. Not every advocate of market capitalism would be equally happy with all of them. Nonetheless, they do fit together in a rough way, and their apparent coherence strengthens their overall force.

Before setting out these arguments, I should emphasize that they are arguments for a pure, libertarian form of capitalism. As I noted earlier, the word “capitalism” is used loosely to describe many kinds of systems, including welfare state systems. The system I want to focus on has the following three features:

1. private ownership of property
2. a market system of production and distribution
3. an allocation criterion that distributes resources to people in accord with their market value, supplemented by gifts

The arguments I will consider claim that a system with these features is the best economic system because

1. It is the most productive and therefore creates the highest levels of well-being.
2. It is the most just because it rewards people in accord with how hard they work and how much they contribute to the good of society.
3. It respects people’s personal liberty and helps to prevent political oppression.

Some defenders of capitalism may appeal to only one of these arguments, claiming it to be sufficient, but if all of them are valid, that would indeed present a forceful case for a capitalist system. If capitalism maximizes people’s level of well-being, provides just rewards for work, and respects individual liberty, it is hard to see why anyone would reject it.

PRODUCTIVITY AND WELL-BEING

The appeal to capitalism’s high productivity and its positive impact on human well-being is extremely important, even though it is not directly an appeal to justice. It is important because economic systems must actually work in practice. They must succeed in producing and distributing goods for people’s use. If an ideal economic system satisfies our highest moral standards but fails to be workable and productive, then it would be rejected out of hand. Economic systems have to work.

The claim that capitalism makes people best off is actually a double argument. As a practical argument, it says that capitalism does best what economic systems are supposed to do—it produces goods and services. As a moral argument, it says that because capitalism produces the best results for all those who are affected, by it, it would be morally right (or just) to choose capitalism over its competitors.

In evaluating this argument, we need to ask three questions: (a) Is it true that capitalism makes people better off than any other system?; (b) if it does, what is the moral relevance of this fact?; and (c) if it does maximize well-being, is that sufficient to show that it is a just system?

Many people think it is obvious that capitalism is the best system for producing human well-being. The most wealthy and prosperous nations call themselves “capitalist” societies, while societies such as the former Soviet Union, which attempted to organize socially, have given up this effort and are trying to create market capitalist institutions. What more evidence could one want?

While these facts are powerful evidence, there are some important qualifications to them. First, none of the societies that we think of as “capitalist” exemplify a pure, libertarian form of market economy. All of them are welfare states of one sort or another. For this reason, we need to determine how much of their success results from the workings of the market and how much is a result of government intervention in economic matters.

Second, even if current capitalist systems are better producers of well-being than other existing systems, we might be able to create novel systems that produce even higher levels of well-being. If we can, then they will be superior to capitalism.

This last point is not meant to suggest that we compare capitalism with impossible utopian schemes. Nor is it meant to detract from its successes. Rather, the point is that capitalism might be capable of improvement or
replacement. A full consideration of its value must compare it not only with existing alternatives but also with feasible, possible alternatives.

With these qualifications in mind, it is still possible for defenders of capitalism to cite the historic successes of its closest approximations as evidence for the productiveness of its ideal form. Peter Berger, on the basis of his examination of the historical evidence, draws the following conclusions about (largely) capitalist systems:

Industrial capitalism has generated the greatest productive power in human history. To date, no other socioeconomic system has been able to generate comparable productive power.

An economy oriented toward production for market exchange provides the optimal conditions for long-lasting and ever-expanding productive capacity based on modern technology.1

Berger acknowledges that capitalism’s high productivity might not be distributed in ways that benefit everyone, and he concedes that the early stages of industrial capitalism were marked by high human costs. Nonetheless, he concludes,

Advanced industrial capitalism has generated, and continues to generate, the highest material standard of living for large masses of people in human history.2

Though Berger’s claims are based on a survey of historical research, they are not much different from what many people claim to know as a matter of common sense, and they provide a powerful basis of support for capitalism. There is something both intriguing and paradoxical about this argument for capitalism, however, for it claims that the best way to aim at the result of maximizing human well-being is by not striving directly to bring it about. Market capitalism maximizes productivity, even though no one in such a system strives for that result. Each producer and consumer, buyer and seller, employer and worker has his or her own private reasons for participating in the market, and yet, as Adam Smith suggested with his metaphor of the “invisible hand,” the result of this process of self-seeking is the highest level of public well-being possible.

This is not to say that no one suffers in a capitalist economy. As a competitive system, a capitalist economy necessarily contains losers as well as winners. Nonetheless, the argument claims, the overall result is better than could be expected from any other economic system. As F.A. Hayek, one of market capitalism’s most distinguished defenders, argues, the effects of a system of free market transactions, “though they always will harm some, are likely to improve the chances of all.” A free market, he says, is the only sys-

2 Ibid., 45.

THE UTILITARIAN ARGUMENT

According to utilitarianism, if these claims about libertarian capitalism are true, then they would show that this system is the best one, both practically and morally. For utilitarians, the overall level of well-being produced by actions or policies is the sole standard by which we determine their rightness or wrongness. As Jeremy Bentham, one of the most influential advocates of the “principle of utility,” explained,

An action . . . [is] conformable to the principle of utility . . . when the tendency it has to augment the happiness of the community is greater than any tendency to diminish it . . . Of an action that is conformable to the principle of utility one may always say either that it is one that ought to be done, or at least that it is not one that ought not to be done.4

Bentham’s idea is that whenever we act, we should consider the possible actions before us and select the one that will produce more well-being than any other possible action. We should aim, as he said, for “the greatest happiness of the greatest number.” When advocates of capitalism recommend it by virtue of its good overall effects on human well-being, they are appealing to this utilitarian standard.

In spite of its plausibility, there are two concerns about the utilitarian criterion that are relevant here. First, advocates of market capitalism should see that whatever support capitalism receives from the utilitarian standard is conditional. Utilitarians are not ideologically committed to capitalism. They are only committed to it as long as it is more successful at producing human well-being than other systems. If other systems, either actual or possible, are better at improving human well-being, then utilitarians will support those other systems. So, there is no intrinsic connection between utilitarianism and capitalism.5

Second, while utilitarians present their principle as the sole standard by which to judge actions and policies, there is reason to doubt this claim. As many critics of utilitarianism have argued, it is possible to imagine actions or policies that are immoral even though they maximize overall well-being.

Suppose, for example, that we could maximize the overall productivity of our economy by enslaving a small part of the population. While slavery

5 John Stuart Mill, for example, was quite sympathetic to socialist criticisms of capitalism, even though he remained wary of the prospects for socialism’s success. For his discussion, see his On Socialism (Buffalo, N.Y.: Prometheus Books, 1987, original ed., 1879).
would be bad for those who suffered from it, if the gains in well-being for the rest of the population were sufficiently large, this could outweigh the losses incurred through enslavement. If this were to occur, then utilitarians would be committed to supporting such a slave system, even though its arrangements appear to constitute a grave injustice. 6

While I cannot fully discuss the merits and demerits of utilitarian morality here, I raise this criticism to suggest that a system might be morally unsatisfactory even if it promotes overall well-being better than its competitors. If slavery is unjust and therefore morally unacceptable (even if it would maximize overall well-being), it follows that utilitarian success is not sufficient to show an economic system to be morally acceptable. In addition, such systems must satisfy the criteria of justice.

There are two reasons, then, why defenders of market capitalism might not want to rely entirely on appeals to utility. First, these appeals may not always work in their favor. Libertarian capitalists may want a defense of their view that is less contingent on facts and more firmly based on principle than the utilitarian argument. Second, as the example of slavery suggests, even if facts about productivity support capitalism, they may not prove its moral worthiness. For this reason, defenders of capitalism often try to show that capitalism is superior not merely from the perspective of maximizing productivity but also from the perspective of justice. One way to do this is by arguing that capitalism is just because it gives people what they deserve.

REWARDS FOR THE DESERVING

One of our most basic ideals of justice is that people ought to be treated in ways they deserve. According to this view, in an ideally just world, good people would enjoy benefits while bad people would suffer. In practice, of course, the evaluation of people is a difficult matter, and the idea of authorizing public agencies to determine people's degree of moral worth raises legitimate fears about abuse of government power.

Nonetheless, the idea of desert is a powerful one, and it plays an important role in our thinking about two areas of social life—the punishment of criminals and the establishment of economic rewards. Theorists often talk of just punishments and just rewards as two different domains of thought, calling the first "retributive" justice and the second "distributive" justice, but it is possible to see both ideas as aspects of one overall conception.

Suppose, for example, that we think that what someone deserves depends on the value of their contribution to society. From this perspective, the just way to treat people who make a positive contribution is to reward them, while the just way to treat those who make a negative contribution is to punish them. Someone who provides valuable economic goods and services should be rewarded for positive contributions, while someone who commits crimes and thus has a negative impact on others should be punished. Moreover, the amount of the reward or punishment should be proportional to the magnitude of the person's positive or negative contributions. People who benefit others more should get bigger rewards, while those who commit more serious crimes and thus do more harm to others should receive more severe punishments.

According to this view, justice requires a kind of reciprocity. In an ideal society, what people would receive for themselves would mirror what they have given to others.

In certain aspects of economic life, a market economy appears to conform to this ideal. As we saw earlier, the cost of an object or service (and thus the price that a seller can receive for it) depends in part on the demand for it. And, one would think, the demand for it would depend on the value that people attribute to it. The more valuable it is to them, the stronger is their desire for it, and the greater is their willingness to pay for it. This suggests that people's willingness to pay more for something depends on their assessment of its value and that people who offer goods of greater value will be able to sell them at higher prices. In this way, the amount received by people for the things they produce will vary with its value to others. The greater the contribution their product makes, the more likely that they will receive a higher price for it.

Our assessments of what people deserve do not always focus on what they actually produce. Sometimes we think that what people deserve depends on their efforts or how hard they work. Here, too, there are situations in which a market economy appears to offer rewards in proportion to what people deserve. Imagine that two people work for an hourly wage. One works forty hours per week, while the second wants to earn more and thus does additional hours of overtime work as well. In this situation, the person who works more will earn more, and this seems appropriate.

While these examples support the idea that capitalism rewards desert, it would be naive for defenders of capitalism to claim that people who work harder and make more valuable contributions always earn more than those who work less hard or do not contribute positively to others. Factors other than effort and contribution play important roles in determining levels of economic reward.

Nonetheless, many people appear to value capitalism for its tendency to reward superior efforts and superior contributions. If it does not always succeed in accomplishing these aims, that might simply show that there is room for improvement in the system. It does not show that other systems would do a better job at rewarding people in accord with what they deserve. In particular, since both socialists and welfare statists favor giving some resources to all people even if they make no positive efforts or contributions, both of those views appear to reject entirely the idea of rewarding people for their efforts and contributions. Capitalism, even if it fails to achieve the goal

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6 For an interesting discussion of slavery from a utilitarian point of view, see R. M. Hare, "What is Wrong with Slavery?" Philosophy and Public Affairs 8 (1979); reprinted in Peter Singer, ed., Applied Ethics (New York: Oxford University Press, 1979).
of rewards in accord with desert, at least appears to recognize it and to implement it to some degree.

LIBERTY AND JUSTICE: THE ENTITLEMENT THEORY

One of the most powerful arguments for capitalism links the libertarian concern for freedom with a conception of justice that emphasizes the moral right of property owners to do what they want with their own possessions. In Anarchy, State, and Utopia, Robert Nozick develops this freedom-based argument and deliberately avoids claims that capitalism maximizes well-being or gives people what they desire. Nozick appeals to the simple but powerful idea that people are entitled to do what they want with their "holdings" (the things they legitimately own). He argues that as long as people engage in voluntary transfers of their holdings, the results of those transfers are just.

Justice, according to Nozick, is achieved through a process of voluntary exchanges. As long as the right procedure is followed in exchanges of holdings, the result is a just one. As Nozick puts it, "Whatever arises from a just situation by just steps is itself just." Injustice occurs when exchanges are done improperly, as in cases of fraudulent or coercive transfers of property. When they are free and uncoerced, their results are just.

According to Nozick, a capitalist economy is just because it is simply the practice of people using their resources as they wish to. People freely create goods and services, and they engage in exchanges with other people, trading things they hold for things that others possess. Sometimes what people exchange is their own labor, consenting to work for others in exchange for money or other goods. Sometimes people simply give their holdings to others without getting anything in return. These transfers include personal gifts, acts of charity, and the passing on of inheritances. The economy as a whole is simply the sum total of the multitude of uncoordinated, individual actions. As long as these actions are free and voluntary, the resulting economic order is a just one.

For Nozick, libertarian capitalism is the only just economic system because it alone respects people's free choices and voluntary actions. It does not specify in advance that the distribution of holdings should conform to a particular pattern. Rather, it is a "historical" view that accepts whatever outcome arises from people's free choices. In a now famous example, Nozick describes a situation in which people willingly pay extra money (in addition to the regular price of admission) to see Wilt Chamberlain play basketball. Because many people are willing to pay extra money and because it goes directly to Chamberlain, he ends up with much more money than other people. Yet, Nozick claims, there can be nothing the matter with this because it is the result of many free decisions by individuals. If each person is entitled to pay extra money to see Chamberlain play and does so voluntarily, then there can be nothing unjust in Chamberlain's possessing all this money. The justice of this result follows from the justice of the process by which he acquired the money.


Generalizing from this example, Nozick claims that we cannot tell whether a distribution of resources is just simply by looking at how much is possessed by particular people. Instead, we must look at how people got what they possess. If they got it through legitimate means, then their possession is legitimate. How much they have in relation to other people is irrelevant.

THE CASE AGAINST GOVERNMENT INTERVENTION

If the result of free transactions is a just distribution, then, Nozick argues, any attempt to interfere with that distribution is immoral. It follows that the government's role must be limited to protecting the process of free exchanges. It is legitimate, for example, for government to prohibit robbery and fraudulent transactions, since these are coercive, illegitimate forms of transfer. The robbery victim does not choose to give her money to the thief, and the victim of fraud only gives up his money because he expects something in return that he will not receive. Likewise, if forced exchanges have occurred, government can transfer holdings to the original, rightful owners. This would achieve justice by rectifying a previous injustice.

As long as exchanges are voluntary, however, any government interference with them or with their results would be wrong. Suppose that laws were passed that forbid very large accumulations of wealth by individuals like Wilt Chamberlain. One way to implement such laws would be to prohibit people who want to pay extra to see Chamberlain play from doing so. More generally, the state would have to prevent people from engaging in any transfers that result in some individuals acquiring a great deal of wealth. This policy, Nozick says, would require "continuous interference in people's lives." It would require government to forbid "capitalist acts between consenting adults."8

Nozick's point is related to a political argument often made for capitalism. If we are concerned that large, powerful governments may become oppressive, we will look for ways to maintain large areas of individual freedom in people's lives. One way to do this is to reject policies that enable governments to engage in such interference. Nozick claims that if a society seeks to impose a pattern on how economic resources are distributed, it will be necessary for government to interfere with people's liberty in intrusive ways. It will be forced to prevent innocent activities such as paying more to see a particular basketball player. Nozick is certainly correct that such a policy appears intrusive and unattractive. If we value freedom, it will not appeal to us.

What if the government permits people to pay extra to see Chamberlain but then imposes heavy taxes on him so as to prevent him from amassing great wealth? This would not interfere directly with as many people. Nonetheless, it might result in everyone being less well off, since Chamberlain might not play under these conditions. This would deprive him of extra money and would deprive lovers of basketball from the opportunity to see him.

In addition, by requiring Chamberlain to pay heavy taxes, the government is engaging in a nonvoluntary, coercive transfer. The transfer of money

8 Ibid., 168.
from Chamberlain to the tax collectors is coercive because failure to give the money is a criminal offense and could result in his being punished. The situation, from the libertarian perspective, is not morally different from a robbery. In both cases, one party uses the threat of force to coerce others to give away some of their money. This form of taxation, then, is an unjust transfer of holdings. It violates Chamberlain's right to do what he wants with the money he has received. Any law that authorizes the government to collect such taxes violates people's rights to do what they want with their own holdings. As such, it violates Nozick's procedural (free transfer) criterion of justice.

Nozick does not see his procedural criterion of justice as a merely legalistic or formal ideal. Rather, it is rooted in the deep moral value of giving proper respect to individuals. Nozick cites Kant's principle that one should always regard people as "ends in themselves" and never use them "as means alone."9 We respect people by not using them as instruments for the good of others. Slavery's deepest offense is found in just this fact—that it uses some people solely as means for the well-being of others. According to Nozick, some forms of taxation have this same feature.

While many people think it is legitimate for governments to tax wealthy people in order to help the poor, Nozick rejects this idea. He believes that taxation for the purpose of providing such aid is "on a par with forced labor."10 The person taxed is being used as a means for raising the well-being of others. There is no problem, of course, if someone voluntarily contributes to others. Taxation for this purpose, however, is a coercive and not a voluntary transfer of resources. Such forced transfers, he believes, violate our most basic moral principles regarding the proper treatment of other human beings.

For Nozick, then, the only legitimate role for government in the economy is to protect the process of voluntary exchange. If it goes beyond and tries to determine the pattern of the resulting distribution, it is acting unjustly. The merit of a capitalist economy is that it respects people's rights and their freedom to engage in voluntary transactions. It does this by not trying to shape the resulting distribution of holdings in accord with some ideal pattern. Since both socialist economies and welfare states seek to enforce a particular distribution of goods, one that differs from what results from voluntary transfers, such systems are necessarily unjust. Libertarian capitalism is the only just system.

THE OVERALL ARGUMENT

The most powerful case for capitalism would join all three of these arguments. It would claim that capitalism makes people better off than any other economic system, that it more successfully rewards people in accord with what they deserve, and that it protects people's freedom to use their possessions as they wish.

10 Nozick, Anarchy, State, and Utopia, 169.

It is worth noting, however, that the criteria implicit in each of these arguments differ from one another and might give conflicting appraisals of capitalism. In particular, Nozick's entitlement theory focuses on the process by which goods are distributed rather than on the result of this process. In contrast, both the utilitarian argument and the desert argument are concerned with results or patterns of the sort Nozick rejects.

Utilitarians favor the system whose overall benefits are larger than the benefits of alternative systems, and they pay no special attention to the process by which these results are generated. That is why utilitarians run into a problem with slavery. Since they are indifferent to how things are produced and care only about the net balance of benefits over losses, they are in a weak position to condemn slavery when its benefits are sufficiently large. And, unlike Nozick, they are not specially wedded to a process of free exchange except insofar as this process maximizes well-being.

Likewise, people who want to provide just rewards for hard work or significant contributions are also concerned with the results of the distributive process. They have an ideal pattern in mind that they would like to see mirrored in the economy. They want people's holdings to be proportional to their degree of personal desert. Hence, like the utilitarians and unlike libertarians, they are concerned with outcomes and not merely with the processes by which holdings are distributed.

There is room, then, for conflict between proponents of these three arguments. Nonetheless, in their ideal world, defenders of capitalism would appeal to all three arguments, and if they could do so, they would have a very powerful case for a libertarian capitalist economy.

SUMMING UP

In this chapter, we've seen that defenders of capitalism can appeal to three strong arguments in favor of their system. Since we have not yet examined alternative systems, it would be premature to decide whether the advocates of capitalism have succeeded in showing it to be best.

Even at this stage, however, we can see that these arguments have a double value. In addition to showing why some people favor capitalism, these arguments also provide us with a set of criteria that we can use in evaluating any economic system. They help us focus on the basic questions we should ask about any system: How well off does it make people? Does it reward people in accord with what they deserve? And, what is its impact on people's liberty?11

11 The three values picked out in these questions are the focus of discussion in Scott Gordon, Welfare, Justice, and Freedom (New York: Columbia University Press, 1980).
CHAPTER FOUR

Socialism and the Critique of Capitalism

Socialism, like capitalism, is both an ideology and a system. Socialists have their own distinctive view about how an economic order should be organized. As we have seen, the core of this view involves three basic features:

1. public ownership of property
2. a planned economy, with a centralized, publicly controlled system of production and distribution
3. an allocative criterion that distributes resources to people in accord with their need

As this list makes clear, socialism has its own positive program, and it can be described without even mentioning capitalism. Nonetheless, the two systems are joined historically because socialism arose as a reaction to the growth of capitalism. For this reason, some of the basic arguments for socialism take the form of arguments against capitalism. If socialists had not been radically dissatisfied with capitalism, they would not have worked to develop an alternative to it.

In considering the arguments for socialism, then, we can begin with socialist criticisms of the arguments for capitalism that we have just examined. Recall that the defense of capitalism consists of three main arguments:

1. Capitalism is the most productive system and therefore creates the highest levels of well-being.
2. Capitalism is the most just because it gives people what they deserve, rewarding hard work and high contributions to social good.
3. Capitalism respects people’s personal liberty and helps to prevent political oppression.

The main case for socialism begins with an attack on each of these. According to socialists,

1. Capitalism fails to maximize human well-being.
2. Capitalism fails to give people their just deserts because it does not reward hard work or productivity.
3. Capitalism does not respect personal liberty.

In addition to these negative arguments, of course, socialists must also show that their system does a better job of meeting these or other proper criteria. If it accepts these criteria, it must show that

2. Socialism gives people what they deserve.
3. Socialism respects and enhances personal liberty.

The socialist argument, then, must include both a negative critique of capitalism and a positive argument that it can succeed where capitalism fails.

DOES CAPITALISM MAXIMIZE HUMAN WELL-BEING?

Defenders of capitalism often stress the fact that it is an enormously productive system. This fact is not denied by socialist critics. In the Communist Manifesto, for example, Karl Marx and Friedrich Engels stress the astounding productive growth that the capitalist class (or “bourgeoisie”) has created. They write:

The bourgeoisie, during its rise of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of Nature’s forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?1

Marx, Engels, and other socialists do not deny that the development of capitalism created an enormous increase in the goods that people can produce. The problem, however, is that an increase in the total amount of goods available does not automatically raise the overall level of human well-being. To see this, we need to distinguish between the total amount of goods produced and the way in which these goods are distributed among people. If most of these goods are owned and enjoyed by a relatively small group of people while the vast majority are denied access to them, then the growth in total productivity will not bring about a proportionate increase in human well-being. This is exactly what socialists claim occurs under capitalism. While a large share of the goods produced go to a relatively small group of

people, many people continue to live in poverty. Capitalism, while it succeeds in producing goods that could enhance human well-being, does not succeed in distributing goods in a way that actually has this effect. It maximizes production without maximizing well-being.

This criticism can be put in utilitarian terms, borrowing the concept of "marginal utility" from economics. Suppose that we want to distribute one hundred apples in the most beneficial way to one hundred people. We will not give them all to one person, leaving the other ninety-nine without anything. Why not? Because the value of each apple depends on how many other apples a person has. If the recipient of all the apples is hungry, then the first apple will have a certain positive value for her, and the second may as well. Even if she can still eat more, the third or fourth apple will have less value to her because she is no longer hungry. Apples five and six might actually make her sick, and if she cannot successfully store the rest for future use, they may go bad and thus contribute nothing to her well-being. It is because the additional apples have less value to this person that economists speak of their "declining marginal utility." Beyond a certain point of accumulation, all goods, including money, start to diminish in value.

In a society in which there are large disparities in wealth, one could do more good by redistributing some resources from the wealthy to the poor. Why? Because the wealthy already have enough both to satisfy their needs and to purchase many luxuries. More money for them will not appreciably raise their level of well-being. If money is directed toward those who are poor, however, it can be used in ways that will make a big difference to them—the difference between being fed and going hungry, for example, or being sheltered and being cold.

What these examples show is that we cannot get the maximum value out of goods if their possession is concentrated in a small part of the population. More good could be created by them if they were distributed more widely and more evenly.

THE DISTRIBUTION OF WEALTH

This utilitarian criticism of capitalism assumes, of course, that in a capitalist society, wealth will be distributed very unevenly, with some possessing much while others have very little. Notice, however, that this unequal distribution is a byproduct of capitalism and not a part of the capitalist's ideal.

Nonetheless, whether or not defenders of capitalism favor economic inequality, socialist critics see this unequal division of goods among rich and poor as a historically necessary outgrowth of capitalism. According to socialists, severe inequalities are an inevitable result of capitalism. They give different reasons for this, but two seem especially plausible in accounting for a tendency of the rich to get richer and the poor to become poorer.

The first reason is that gains and losses are cumulative. If a person begins with more resources than others or has some early successes, that person's gains can be invested to earn more money. In addition to earning some income by work, this person's investments can be earning extra gains at the same time. A person who does poorly and falls into debt has to struggle just to get back to his starting point. Working to pay off his debts, he will lack the funds either to buy things he needs or to invest anything for future return.

This process can continue over the long term. If a successful person passes on accumulated wealth to children or grandchildren, then these younger generations will be both more comfortable and better able to compete efficiently in the market. They will probably be healthier, better educated, and in possession of money to invest in opportunities if they arise. At the same time, the children and grandchildren of unsuccessful people will start off with serious competitive disadvantages. They may be less healthy and may lack opportunities to develop useful skills to offer in the marketplace. Hence, the odds of their doing well are slim.

To bring out the force of this reasoning, imagine playing a succession of games of Monopoly™. In the first game, play proceeds as usual, with everyone starting out with $1500 from the bank. The second game, however, begins with every one holding the money they had at the end of the first game; the third begins with players holding the money they had at the end of the second, and so on. It does not take much insight to see that those who do well in the first game will have a distinct advantage as they enter the second, while those who do poorly will have a difficult time making a comeback. In the game, as in life, economic success tends to be cumulative. Those with more resources are in a better position to do well than are those with limited resources.

The second reason for these growing disparities between rich and poor has to do with the labor market. As we saw earlier, how much people are paid for work depends on the supply of and demand for labor. If there is a large pool of people in need of work, then employers need only offer low wages. What one worker will refuse as too little will be snatched up by others.

With this in mind, we can see why the rise of industrialism lowered workers' wages. It did this by both increasing the labor supply and decreasing the demand. As Marx and Engels argue, the invention of machines to perform many tasks reduces the demand for skilled craftsmen. They are no longer needed; instead, one only needs relatively unskilled workers to tend the machines in their work. This both lowers the demand for workers (since the machine does the equivalent of what many people had done), and it increases the supply by making almost anyone qualified for the work. Even children could be brought into factories, thus increasing the size of the labor pool and driving down wages to lower levels.

Some might argue that these developments were part of nineteenth-century capitalism but deny that the same pressures exist now. Nonetheless, these apparent structural features of a capitalist system rather than transient aspects of capitalism during one era. A current issue of concern is the exporting of jobs to countries with lower wage scales, and this is simply an
extension of the phenomenon I have described. By internationalizing the labor pool, the wages of higher-paid workers are undercut through the hiring of workers in poorer nations. In addition, the further development of technology continues to diminish the need for human labor in many areas of work, leading to the downsizing of many companies.

The tendency toward income disparities can also be seen in various economic statistics about income distribution in the United States. According to the Congressional Budget Office, between 1977–1988, annual income of families in the bottom 40 percent of the U.S. population declined, with those in the lowest decile declining by 10.5 percent. The largest gains in income were found in the upper 10 percent of the population, with gains in annual income averaging 27.4 percent. Within the top group, the very wealthiest did best of all. Those in the top 5 percent saw increases of 37.3 percent, while those in the top 1 percent had gains of almost 75 percent. Looking at dollar amounts rather than percentage of increase, the report found that in 1988 average family income in the lowest 10 percent was $3157, while average family income in the highest 10 percent was $124,651, and in the highest 1 percent, the average was $303,890.2

The utilitarian argument about the marginal utility of money strongly suggests that this kind of distribution does not maximize human well-being. We could increase the total well-being of people by redistributing some of this money. This could be done because the loss of money for the wealthy would have little if any negative impact on their well-being, while the gains for the poor would be significant.

If this is correct, it supports the socialist's case in two ways. First, it undermines the optimistic picture that defenders of capitalism give. Even if capitalism is the most productive system, it permits a distribution that causes some to live in misery while others have vast resources that do them little good.

Second, from a utilitarian point of view, if the right act or policy is the one that maximizes utility or well-being, then some form of distribution of resources by the state would seem to be morally required. Instead of leaving distribution to market forces, socialists argue that a better distribution and more utility can be achieved by consciously allocating resources in accord with people’s needs. It would be better to have some central process that directs resources to the people who can get the most out of them, rather than allowing for the cumulative growth of wealth among those who already possess more than they need.

DOES CAPITALISM REWARD THE DESERVING?

As we saw earlier, defenders of capitalism sometimes appeal to the idea that it best satisfies our desire that people should be paid in proportion to what they deserve. Those who work hard or make significant contributions should be paid more than people who are lazy or unproductive.

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3 The very idea of distributive justice, or of any proportionality between success and merit, or between success and exertion, is in the present state of society so manifestly chimerical as to be relegated to the regions of romance.

While Mill’s conclusion runs counter to much popular belief, reflection on the workings of a market economy makes it very plausible. That a capitalist system rewards desert appears to be more a matter of myth than reality.

One reason for this has already emerged in my discussion of growing disparities in wealth. This is the changing influence of previous economic successes and failures. People who succeed and have a lot of money can continue to earn a great deal simply by investing their money and earning interest, dividends, and profits from the sale of stocks or real estate. Such people need not work at all. Marx and Engels made this point in exaggerated form in The Communist Manifesto, asserting that in a capitalist society, “those of its members who work, acquire nothing, and those who acquire anything, do not work.”

Moreover, if people are permitted to pass on inheritances to their children, then the fruits of past success can be made relatively permanent, ensuring that new generations will flourish economically without any effort or contribution at all. Since no one deserves to be born into a particular family, no one can deserve to receive an inheritance. This means that no society in which inheritance is an important source of wealth will meet the ideal of rewards in accord with desert.

A similar conclusion about the failure of capitalism to reward hard work follows from considering the factors that determine salary levels. People with few skills must compete with many others for jobs, and this has the effect of lowering the wages for unskilled work, even if that work requires much effort. Migrant agricultural workers, coal miners, and factory workers often work longer hours under more adverse conditions than many people who earn much more than they do.

Nor does a greater contribution to others ensure greater compensation. Recall Tom Cottle’s protest about the earnings of school teachers like his wife in relation to the earnings of baseball players. Commenting on the practice by which baseball players can earn additional money by signing autographs, Cottle notes, “By writing their names, ballplayers may receive a financial bonus. My wife teaches children how to write their names.” Surely, giving children the skill to write and communicate makes a more valuable contribu-
Socialism and the Critique of Capitalism

It is probably a misfortune that, especially in the USA, popular writers . . . have defended free enterprise on the ground that it regularly rewards the deserving, and it bodes ill for the future of the market order that this seems to have become the only defence of it which is understood by the general public.  

Hayek’s remark is interesting because it acknowledges the existence of a widespread desire that rewards be distributed in accord with desert. He admits, however, that this is an ideal that a market economy does not aim for and is unlikely to realize.

SOCIALISM AND DESERT

While socialists may effectively criticize capitalism for failing to distribute goods in accord with desert, it does not follow that socialism would succeed in doing so. In fact, it is not clear that socialists favor this ideal themselves. The main distributive ideals in socialism are need and equality. For this reason, socialists would not want substantially more goods to be distributed to people who work harder or contribute more. That would violate their egalitarian ideals and the priority they give to meeting needs.

Given this conflict, socialists can adopt either of two views about the ideal of distribution according to desert. Either they can retain the ideal of giving people what they deserve, while offering a different interpretation of what this means, or they can retain the traditional concept of desert, while giving it either no role or a much reduced role in determining how goods should be distributed.

Let us consider the first view, which retains the ideal of basing distribution on desert. A socialist could claim that when this view is properly interpreted, it supports the socialist ideal that goods should be distributed more or less equally. Thomas Nagel suggests this view when he writes that
differential abilities are not usually among the characteristics that determine whether people deserve economic and social benefits (though of course they determine whether people get such benefits). In fact, I believe that nearly all characteristics are irrelevant to what people deserve in this dimension, and that most people therefore deserve to be treated equally. . . . I do not have a precise view about what features are relevant. I contend only that they are features in which most people do not differ enough to justify very wide differences in reward.

While Nagel’s views about desert are not fully developed, his remarks contain ideas that are in harmony with socialist ideals. First, he believes that “wide differences in reward” cannot be justified by appeal to desert. This fits in with the socialist’s emphasis on equality. Second, he believes that the fea-

And F. A. Hayek laments the fact that some advocates of capitalism ever tried to establish its superiority by appeal to desert. He writes:

7 For a discussion of the factors that influence the salaries of teachers and other professionals, see Derek Bok, The Cost of Talent (New York: The Free Press, 1998).
Socialism and the Critique of Capitalism

tures that determine the level of resources people deserve are features "in which most people do not differ" substantially. Since most people do not differ substantially in their basic needs, if needs (rather than achievement) were the basis of desert, a relatively egalitarian distribution would give people what they deserve.

Suppose, then, that what people deserve is determined in large part by their needs and that most people's needs do not differ substantially enough to warrant wide discrepancies in allocation. In that case, we could give people what they deserve by providing a roughly equal distribution of goods. This is precisely what socialists argue for. 12 If we accept this argument, we must come to believe that there is more than one concept of "desert." The concept that we considered earlier focuses on people's individual efforts or achievements. It is a concept of personal desert. Nagel's remarks suggest that there is another kind of desert that belongs to us simply by virtue of our humanity. For this reason, I will call it human desert. 13 Unlike personal desert, which is possessed in varying degrees by individuals and depends on what they have done, human desert is based on features we all share and is possessed equally by all human beings. This notion of human desert is related to the idea of basic human rights, which are moral claims that people have simply by virtue of their humanity. They are rights that no one has to earn.

Since socialists believe that all human beings have a basic right to a share of the social product, Nagel's reflections provide a useful basis for their view. Building on Nagel's points, a socialist could claim that the distribution of goods should be based on human desert rather than personal desert. Moreover, while some rewards might be distributed on the basis of personal desert, these would not be substantial enough to create large disparities in income and well-being.

Someone might object that the only kind of desert is personal desert and that the concept of human desert makes no sense. Faced with this objection, socialists might adopt a second view. They might simply reject the criterion of desert altogether and claim that what people deserve is irrelevant to the fundamental issues of how goods should be distributed. What is relevant is the moral priority of meeting people's needs and the egalitarian ideal of treating all people (at least roughly) equally. Even if some people deserve a greater share of goods by virtue of their efforts or achievements, their degree of desert could never be so great as to justify a distribution in which some flourish in unbounded luxury while others lack the basic necessities of life. Personal desert, according to socialists, should at most play a small role in determining the size of the social product that people may justly claim.

12 If people's needs vary greatly, then "to each, according to their needs" will not support a simple, equal distribution policy. This is a problem that socialists need to face.
13 Alan Zaitchik uses the term "automatic desert" to make a similar point in "Deserving to Deserve." Philosophy and Public Affairs, 6 (1977), 371-88. See also, Amy Gutman, Liberal Equality

CAPITALISM, SOCIALISM, AND INDIVIDUAL LIBERTY

Recall that the third main argument for capitalism is that it respects people's liberty and thereby protects us against intrusive, oppressive government activities. In a libertarian capitalist order, people have a right to do whatever they want with their resources. They are free to engage in a range of voluntary transfers, including buying and selling, gift giving, charity, and the bequeathing of inheritances. Moreover, as in the example of Wilt Chamberlain, people can negotiate arrangements that result in some possessing much more than others. Nozick and other defenders of libertarian capitalism believe that any attempt to prohibit inequalities or prevent the accumulation of great wealth will lead to continuous interference in people's lives. Moreover, the use of taxation to help some people meet their needs will violate other people's right to do what they want with the resources they possess. Taxation is a forced transfer, not a voluntary one, and therefore, taxing to provide "welfare" assistance to others limits the liberty of people to use their resources as they personally think is best.

Libertarians, then, see themselves as defending individual liberty from the encroachment of coercive government institutions. Echoing a famous line from Thoreau, they believe that "that government is best, which governs least," and they seek to restrict the role of government to that of a minimal state, a state that prevents force and fraud but otherwise leaves people alone. 14 On their view, as long as people are not directly harming one another, they should be free to do what they want.

The socialist criticism of this view begins with the complaint that the libertarian conception of freedom is too narrow. Socialists understand freedom as something positive. It is the ability to act. Libertarian defenders of capitalism, however, think of freedom in a negative sense. For them, people are free if they are not interfered with by other people. As long as no one is coercing me to do something I don't want to do or preventing me from doing what I do want to do, then I am free.

The difference between positive and negative conceptions of freedom is extremely important. For socialists, a person has the freedom to eat a meal, for example, if she possesses food, has the ability and utensils to prepare it.

For eating, and can actually eat it. For libertarians, a person is free to eat a
meal if no one prevents him from eating. According to the libertarian view, a
person who has no food and no money to buy food has the freedom to eat a
meal in spite of the fact that she lacks the resources to do so. As long as no
one prevents her from eating, she is free to do so, even though her lack of
food makes this impossible.

According to libertarians, in a capitalist society everyone is equally free to
use or exchange resources. It does not matter that some people have
resources to exchange while others do not. All are equally free. Socialists see
this kind of freedom as purely formal, empty, and abstract because it is totally
disconnected from the actual ability to use or transfer resources.

For socialists, then, a society of free people is not simply one in which either
government nor individuals actively prevent people from doing what
they want. Instead, it is a society in which people have the resources that are
necessary for doing what they seek to do. To be free to do something is to
have the power to do it. People's freedom is proportional to their power, and
their power is often proportional to the resources they possess.

From the socialist perspective, a capitalist society fails to provide equal
liberty for all its citizens. It fails to do so because it permits vast inequalities in
resources, and inequalities in resources create inequalities in liberty.

**HOW LIBERTY UPSETS LIBERTY**

Nozick contrasts the libertarian "procedural" conception of justice with
what he calls "patterned" conceptions of justice. An egalitarian socialist
ideal, for example, is patterned because it seeks to make the distribution of
resources conform to some ideal pattern of distribution. For egalitarian
socialists, the ideal pattern is achieved when everyone has the same amount of
resources.

Nozick argues that respecting people's liberty necessarily undermines
any patterned conception of justice. If government simply lets people
exchange resources freely, there is little chance that any particular pattern of
distribution will result. Hence, if socialists or others want to impose a pat-
terned distribution, that will require them to interfere with people's liberty.

In drawing this conclusion, Nozick is certainly correct. A government
that tries to implement an ideal pattern of distribution will have to prohibit
departures from that pattern, and, as Nozick forcefully brings out, it will
have to prohibit someone like Wilt Chamberlain from obtaining more
money than others, even if others are willing to pay extra to see him play
basketball.

Nonetheless, what Nozick's argument overlooks is that liberty itself can
undermine liberty. In a libertarian capitalist society, people with resources
can engage in any transactions they want. As a result, people without
resources must live with significant limitations on their liberty. For example,
children born to poor families will not be free to obtain the education
required for developing their mental capacities or the nutrition and health
care required to develop their physical capacities. The freedom of an uncon-
strained market economy results in a lack of freedom for poor children and
prevents them from equipping themselves to compete effectively in a mar-
ket economy. Likewise, the freedom of wealthy people to leave inheritances
to their children limits the freedom of poorer children to compete on an
equal basis for education and jobs.

If advantages in a market economy tend to be cumulative, then granting
people the right to absolute control over their property will mean that, over
time, the freedom of some will continue to increase, while the freedom of
others will decrease. Growing disparities of income and wealth will be
matched by growing disparities of freedom.

People in poverty with few skills are not free to turn down jobs that
involve long hours, unhealthy working conditions, and low pay. They are
forced to take such jobs because they lack alternative opportunities and
because this is the only way they can earn a living. Of course, they are legally
free to turn down such jobs. No one tells them that if they do not take them,
they will be subject to legal punishment. Nonetheless, they are in no position
to take advantage of the formal right to decline such a job.

Socialists believe that a system that guarantees people equal shares of the
social product would produce a vast increase in freedom, since many people
would gain the resources to make a larger selection of actions possible. To
achieve this would require taking away the liberty to accumulate unlimited
amounts of resources. At the same time, it would vastly increase the freedom
to choose and act for most people.

For socialists, then, the choice is not between freedom under capitalism or
oppression under socialism. The choice is between a capitalist system that
provides formal freedom for all and actual freedom for only some and a
socialist system in which limits on the freedom to accumulate wealth create
vastly increased positive freedom for most people.

**THE CASE FOR SOCIALISM**

The socialist argument, then, has two main parts: a critique of capitalism
and a defense of the socialist alternative. The two parts are related, however,
for each of the criticisms of capitalism suggests that the socialist alternative
could solve the problem that capitalism creates or permits.

Contrary to what capitalists have argued, socialists claim that their system
would distribute goods in a way that maximizes their usefulness in promot-
ing human well-being. In their view, the diminishing marginal utility of
wealth and the tendency of capitalism to produce disparities of wealth show
that a roughly equal distribution would produce the highest overall level of
human well-being. Capitalism wastes too many resources on people whose
needs are already satisfied, while socialism channels resources in ways that
will do the most good.
Second, while socialists reject the idea that some people deserve much more than others, they accept the idea that all people should get what is due to them. Unlike capitalists, they think that what people deserve or are entitled to is a roughly equal share of the social product. If each person’s life is important and valuable in its own right, then giving people their due requires attending to their needs. Capitalism, socialists say, fails to do this. It neglects the needs of many in order to protect the right of a minority to control large-scale resources. Socialism, however, gives the satisfaction of needs the highest priority in the use of resources.

Finally, while capitalism is often defended as a bulwark of freedom, socialists argue that it protects only negative or formal freedom; it does nothing to protect positive freedom, the actual ability of people to act in pursuit of their goals. Since real freedom varies with the resources available to people, socialism maximizes freedom by spreading resources around. Socialism permits people to be genuinely free because it makes sure they have the resources they need to act according to their own desires and decisions.

This does not mean that everyone can do everything they want. What we can do is limited by our abilities, by limits on the resources available to society, and by limits on our legitimate claim to resources. What socialism strives to give everyone, however, is a roughly equal share of social resources, and this means that by and large, any one person’s ability to act on his own decisions will be as extensive as the ability of any other person to do so.

SUMMING UP

Socialists acknowledge the great productive powers that capitalism has helped to develop. They also grant the value of the goals that capitalists often cite as the justification for their system: making people as well off as possible, giving everyone his or her proper due, and making people as free as possible.

Nonetheless, socialists argue, capitalism fails to distribute the benefits of its productive capacity in ways that achieve these goals. These goals, socialists claim, can only be met if they are made the explicit aim of government policy. They will never be met if they are left to the workings of the market economy. If people who cite these goals are serious, they will be forced to embrace socialism rather than capitalism.

Promoting Well-Being

ASSESSING CAPITALISM AND SOCIALISM

In Part I, I described some of the arguments that advocates of capitalism and socialism use to promote their views. While the case for capitalism contains some strong arguments, the socialist case against capitalism also has considerable force. Faced with these socialist criticisms, advocates of capitalism have come to its defense, trying to rebut objections and establish capitalism’s superiority. As with all complex issues, the debate between capitalism and socialism contains points and counterpoints, objections and replies, replies to replies, and so on.

At some point, however, we need to try to resolve the issues, even if our conclusions are only tentative. In this and the next two chapters, I try to reach such a resolution by evaluating both systems from the perspective of the three values that are so central to our thinking about economic justice: human well-being, rewards for the deserving, and the enhancement of liberty. Each system claims to be superior with respect to these values. Now that we have seen how defenders of both views appeal to these values, we can assess how successful they are. In doing so, we can also see how defenders of the welfare state enter the debate and why they think that a welfare state system is superior to both capitalism and socialism.

THE UTILITARIAN ARGUMENT

Advocates of both capitalism and socialism claim that their system is right just because it best promotes human well-being. This is, in effect, a utilitari-
an argument, since utilitarianism identifies what is right to do with what best promotes well-being. Even if it is a mistake to identify moral rightness or justice with the production of well-being, it remains true that a system that shows itself to be the best promoter of well-being will have a powerful argument in its favor. People rightly judge economic systems by their results, and one crucial result is how well off or badly off they make people’s lives.

To this point, we have seen two main arguments for the view that capitalism makes people best off—an appeal to history and an abstract argument about the ways in which a market economy provides incentives for productivity. The historical argument compares the levels of well-being in capitalist and socialist countries and reminds us that formerly socialist countries are turning increasingly to capitalism. The abstract argument describes the ways in which a competitive economy gives people both positive and negative incentives to produce goods that enhance human life.

Socialists have their own account of history. It stresses the costs of capitalism in human terms, the harm produced by cycles of boom and bust, and most of all, the fact that the benefits of capitalist production reach only some people, while others live in poverty. Likewise, they note the disadvantages that some socialist countries began under and their success in promoting economic growth and industrial development.

Socialists argue that capitalism is inherently inefficient. It fails to promote human well-being effectively because it permits vast amounts of resources to be channeled to people who already have them. When these resources go to people who are already well off, they exhibit diminished marginal utility; they do less good for the well off than they would for the poor. Socialists argue that we can maximize the value of resources by adopting a more equalized distribution. We can maximize utility by taking from the rich (because diminishing their resources won’t really harm them) and giving more to the poor (since those same resources will bring substantial improvements in well-being).

From the socialist perspective, capitalism is wasteful and inefficient because it permits the concentration of resources in a small part of the population. Socialism, they claim, would effectively promote well-being by distributing resources in accord with principles of need and value.

THE CAPITALIST REPLY TO THE MARGINAL UTILITY ARGUMENT

Capitalists reject this argument and claim that it involves a fundamental mistake. Socialists assume that we could have the productivity of capitalism without the unequal distribution that capitalism generates. According to advocates of capitalism, this is a serious error: They argue that the productivity of the capitalist system is closely linked to the unequal rewards that result from it. You cannot tamper with the distribution system, they say, without destroying capitalism’s high productivity.

Why is this? Because high productivity is the direct result of the incentives for individuals to be productive. People have an incentive to produce better products and services because if they succeed, they can increase their earnings and acquire greater benefits for themselves, their families, and others they care about. If people work hard and succeed in producing valuable goods and services, they themselves will benefit directly from their success. They will benefit by having more money to purchase the goods that money can buy, whether those goods be luxuries or necessities.

In addition, if people accumulate more money than is necessary to meet their needs and satisfy their desires, they can invest their money in ways that will generate new or better productive enterprises. These investments will gain more benefits for themselves while at the same time playing an important role in the growth of the economy.

If people could not benefit themselves in these ways, they would lack the incentive to be productive. In an egalitarian socialist system, no matter how hard people work or how much they produce, they themselves can earn no more than someone who does not work hard and is unproductive. Without the prospect of personal benefit, there would be much less motivation to work hard, to be innovative, and to contribute to increased productivity.

This point can be strengthened by recalling that much of the work needed by a society is difficult and unpleasant. If people are to be motivated to perform this work, they must be able to benefit personally by increasing their own rewards or by preventing themselves from the suffering of economic deprivation. A capitalist economy works by “sticks” as well as “carrots,” providing both positive and negative incentives to work. People work hard to get what they desire and to avoid what they justifiably fear—hunger, lack of shelter, and the loss of goods that make survival possible and life pleasant.

Looking at realistically, capitalists claim, a market economy is necessary for high productivity. It makes effective use of the powerful motives of fear and desire. Without these, people would simply work less hard, and society as a whole would be less productive.

If everyone were guaranteed an equal share of the social product, the incentives to work would diminish and productivity would decline. In a socialist economy, the sum total of goods would be much smaller, and the economy would not be productive enough to provide everyone with a decent standard of living. Greater equality would be achieved, but the mass of people would be worse off than they are in a capitalist economy. The poor would still be poor, and those who had enjoyed a good life under capitalism no longer would do so.

The crucial flaw in the socialist case, then, is that it treats production and distribution as separate matters. In fact, capitalists argue, it is the system of unequal rewards that makes capitalism so productive. Take away the possibili-
ty of rich rewards for the successful and the possibility of dire poverty for those who do not work, and you take away the possibility of high productivity. The socialist vision of a highly productive, egalitarian society rests on a delusion.

ARE THERE OTHER MOTIVATIONS?

In order to reply to the argument that productivity will fall drastically in the absence of unequal rewards, socialists need an alternative theory of motivation. This is especially important because socialists want to create a world in which people are secure enough to be free of fear and content enough not to want more goods than others. They need to explain why people will work hard if doing so will not benefit them personally and if failing to work will not deprive them of anything.

What socialists claim is that defenders of capitalism are themselves making unwarranted assumptions both about human motivation and about work. Capitalists assume that people are lazy and self-centered and therefore that they will only work if prodded by sticks or induced by carrots. Likewise, they assume that work is inherently repulsive so that external inducements to work will always be necessary. While these assumptions may be true in a capitalist society, they will not be true in a socialist society.

In a socialist society, they argue, people will be different, and work will be different. Freed from competition and the struggle to survive in a capitalist society, people’s social tendencies will become more highly developed and their need to act self-interestedly will diminish. Likewise, work itself will change. It will be organized so as to minimize drudgery and will not be seen as a badge of low status. Rather, work will become a means for people to realize themselves in a productive, satisfying activity.

Marx explicitly recognized that many changes would be necessary before an ideal socialist society could be achieved. Only after these changes had occurred could the socialist ideal of distribution according to need be met. The highest, most ideal phase of “communism” would only be reached, he wrote,

after the enslaving subordination of individuals under division of labor, and there-with also the antithesis between mental and physical labour, has vanished; after labour, from a mere means of life, has itself become the prime necessity of life; after the productive forces have also increased with the all-round development of the individual, and all the springs of co-operative wealth flow more abundantly—only then can the narrow horizon of bourgeois right be fully left behind and society inscribe on its banners: from each according to his ability, to each according to his needs?

Contrary, then, to the claim that socialists ignore the connection between production and distribution, Marx argues that in order to achieve a socialist distribution, the conditions of production and the incentives for work must be thoroughly transformed. Only when people have changed so that they willingly work according to their ability can the ideal of distribution according to need be realized.

While Marx’s comments show an awareness of the problem of incentives for work, they may unwittingly suggest that the problem is impossible to solve. For socialism to succeed, people’s motivations must be different, but for people’s motivations to be different, they must inhabit a different social system. This looks like a vicious circle, however. The move from capitalism to socialism seems to require motivations in people that will only come to exist when socialism is already in place.

Marx’s solution to this problem is that the move from capitalism to full socialism must take place in stages. “From each according to his ability, to each according to his needs” can be achieved only in the final, highest stage of a communist society. It is not to be expected as the immediate result of the overthrow of capitalism. During the first, “lower” stage of socialism, a different system will have to operate, one that makes work a necessity. In this first stage, Marx writes,

the individual producer receives back from society … exactly what he gives to it. … He receives a certificate from society that he has furnished such and such an amount of labour (after deducting his labour for the common fund), and with this certificate he draws from the social stock of means of consumption as much as the same amount of labour costs. The same amount of labour which he has given to society in one form, he receives back in another.

At this stage, then, people must work in order to receive the goods needed for living, and the amount of goods people receive is strictly proportional to the amount of work they do.

Marx does not describe how to get from this stage to the full socialist ideal. Presumably he believed that over time, as public ownership takes effect, as the distribution of wealth is roughly equalized in society, and as conditions of work improve, people will cease to strive for themselves alone. The effects of the socialization process that prepared people for life under capitalism will wither away, and they will develop a set of motivations that are compatible with socialism.

BACK TO THE PRESENT

Is Marx’s answer to the incentive problem adequate?

Defenders of capitalism are likely to think that human nature is inherently self-centered in ways that make his vision implausible. Even thinkers who are sympathetic with socialist ideals have felt doubts about its demands on altruistic motivation. John Stuart Mill, after reflecting on this problem, concluded that


3 Ibid., 8.
the motive of conscience and that of credit and reputation . . . are more to be
relied on for preventing wrong, than for calling forth the fullest energies in
the pursuit of ordinary occupations. In the case of most men the only inducement
which has been found sufficiently constant and unfailing to overcome the ever-
present influence of indolence and love of ease, and induce men to apply them-
theselves unrelentingly to work for the most part in itself dull and unexciting, is the
hearth of the plainest and best of them all; and the closer the connexion of every increase of exertion with a corresponding
increase of its fruits, the more powerful is its motive. 4

Similarly, Thomas Nagel, having defended economic egalitarianism on eth-
ical grounds, argues that an egalitarian economic system is incompatible
with human nature. He writes:

It is psychologically difficult to realize a decent social ideal with real people, as
opposed to characters in utopian fiction . . . [It does not belong to the socialized
nature of modern man in general to be motivated by a concern for the good of all
in most of his working, let alone private, life . . . ] The result is that the most suc-
cessful economies are competitive and give rise to substantial inequalities, which
inevitably get passed on from generation to generation. 5

The fact that both these quotes come from thinkers who are highly sympa-
thetic with socialist aims suggests that we need to take seriously the possibil-
ity that socialism presupposes a false psychology.

To take this claim seriously, however, is not the same as accepting it as an
obvious truth. Marx’s more optimistic assessment is neither foolish nor obvi-
ously wrong. Human nature is both variable and malleable in many respects.
After all, people throughout the world are socialized into different cultures,
and we can see the profound differences between members of distinct cult-
ures. They differ in customs and tastes, as well as in their sense of what is
important and worth striving for. Nor are people always predominantly self-
seeking. The willingness of people to risk their lives for their country shows
that even strong natural inclinations toward self-preservation can be over-
come by socialization processes, psychic rewards, and public pressure. Less
dramatically, many people contribute freely to charity and volunteer: their
time and effort to assist others. Moreover, the possibility of altering people’s
motivations is supported by the effects of advertising. Advertising seems
capable of producing entirely new and very powerful desires in people for
certain kinds of products.

All these phenomena suggest that people might be able to live and work
productively within a socialist value scheme. It is not at all absurd to believe
that people would be less competitive and less self-interested if they lived in
a world in which they were both more secure and better provided for by
their society. In such a world, they might well acquire motivations to work

4 Mill, On Socialism, (Buffalo: Prometheus Books, 1987), 120.

that are independent of the fear and desire that motivate work in a capitalist
society.6

Still, for the foreseeable future, competitive and self-seeking motivations,
along with the heightened concern that most people feel for their own fami-
lies and friends, will remain powerful obstacles to achieving a socialist society.

THE WELFARE STATE SOLUTION

The clash of capitalists and socialists on this issue appears to present us with
a dilemma. If we choose capitalism, we have a better chance that our econ-
omy will be sufficiently productive to make everyone well off, but the system
of unequal rewards will leave some people very badly off, while others will
have much more than they need. If we choose socialism, we will have an
equitable distribution, but the economy seems less likely to produce enough
to provide everyone with a decent standard of living.

Capitalists conclude that the best way for us to provide a good life for some. In their more high-spirited moments, they may claim that the good life can be achieved by all who are willing to work. When they are being more honest, they acknowledge that the suffering of many may be an inevitable part of the system. Socialists reject the inevitabil-
ity of poverty, but they grant that changing the system requires people to be
differently motivated and that this can only occur when the new system has
already taken root.

Advocates of the welfare state deny that our choice is this bleak. They
think we can have the best of both worlds—high productivity and a some-
what more equitable distribution. Their idea is a simple one. If some portion
of people’s assets is collected in taxes and used to assist people in need, this
will not diminish the incentive to work because those who are taxed will still
be better off than they would have been if they had not worked. More work
will still lead to greater rewards, even if the entire earnings are not kept. If
too much is taken, of course, people may come to think that their extra
efforts are not worth making, but if the tax rate is set properly, it will collect
some money from the better off to aid those in need, while still leaving intact
the incentives that motivate increased productivity.

The welfare state provides the utilitarian solution to the problem. It does
this by rejecting aspects of both the capitalist and the socialist positions. It
rejects the libertarian capitalist’s extreme claim that people must retain all
their economic earnings if the incentive to be more productive is to operate.
Instead, its defenders claim, some loss in taxes is compatible with sustained
incentives for greater rewards. Likewise, the welfare state solution rejects
the idea that only fear of hunger and death will cause people at the lower

6 For two visions of what a socialist society would look like that differ both from Marx and from
one another, see Edward Bellamy, Looking Backward, and William Morris, News from Nowhere,
(London: Routledge & Kegan Paul, 1970). Bellamy’s ideas are further developed in Equality,
(New York: Appleton, 1887).