Episode 337 – The Fatal Errors of Socialism
Guest: James Otteson
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WOODS: I love the title of your book *The End of Socialism* partly because you are bucking the academic trend of having a long and ponderous subtitle. You are just leaving us to figure out on our own what you mean by the end of socialism. So, of course, I do want to talk about that, but let's begin by defining the other terms that are important in this book, namely capitalism and socialism.

OTTESON: I can't claim complete credit for the title. I will admit that my initial title for the book was much longer, but it my editor at Cambridge who said, you know, something a little shorter and punchier might be better.

WOODS: How about that? Okay.

OTTESON: That's how we came up with *The End of Socialism*. But as your question indicates, people define socialism and capitalism in many different ways. So one goal of the book, especially at the beginning, is to define the term so we know what we're talking about. The traditional definition of socialism is public ownership of the means of production, but I don't think that's such a good definition anymore. There aren't very many people who call themselves, today anyway, avowed socialists, but that's probably also true on the other side. There aren't many people who will go publicly and say, I am a capitalist. But I don't think that the fact that people don't use those terms quite as much means that there aren't people who aren't, as I say anyway, socialist inclined in their policy versus capitalist inclined. So although both are systems of political economy, socialism and capitalism have their moral values that they support, they have certain goals that they aim to achieve, I think one of the key distinguishing features in them is who makes the economic decisions in both systems. And that, I think, is something that can get us some traction and be plausible for both sides, as it were.

So under socialism, what I argue in the book: socialist political economy tends to be supported by people who think that decisions should be made centrally by some group of experts, legislators, congressmen, regulators, etc., versus capitalism where the decisions tend to be made decentrally, so individuals, private groups, private associations. And although that's a continuum, you can, I think, pretty easily see where different policies or even different political figures, political theories tend in one direction or another. So the question is: who are they

proposing should be making decisions about how to allocate resources, people's time, talent, etc.? Are they advocating a centralized group of people to make more and more of those decisions, or are they advocating allowing decentralized individuals to make those decisions.

WOODS: I was actually quite satisfied with these definitions, which are not the strict, dictionary definitions, but they satisfied me, certainly. And you're right that the classical definition that Mises might have used, involving public ownership of the means of production, is not really applicable to many regimes today. So it's not quite so helpful. Tell us what the purpose of your book is. There are a lot of different angles from which you can attack socialism, from which you can go at this problem, but you've been very careful in choosing a particular line of attack.

OTTESON: A common view that many people hold is that socialism is morally preferable to capitalism in itself if only we can live up to its ideals, and because of that, many people are willing to allow for various kinds of costs and other things that might be associated with socialism in the service of various ends. So the strategy of the book is really to test that theory. What is it about that socialism that makes it morally superior in itself or that makes it morally preferable in itself? And why would we think that the costs, whatever they are that are associated with socialism, would be worth the sacrifice?

The book has two halves, and actually takes those questions in reverse order. The first part of the book is, well, let's look at the practical challenges, difficulties, and costs associated with socialism. Let's look at what they really are. Let's see if we can figure them out. And in the book, I argue that they are actually much more substantial than many of the proponents of socialism usually admit or appreciate. And then given those costs, I look at the particular moral values or advocates of socialism claim that socialism is in the service of. I ask whether we are able to achieve those goals with a socialist political economy, centralized economic decision making, or not.

WOODS: Now, of course, it does seem to be the case that if a system cannot be instituted or can be instituted only with enormous difficulty, then it can't be morally obligatory upon us. So, of course, tackling the question of what are the precise obstacles is a very important, practical and moral question. G.A. Cohen is a socialist you mention—the late G.A. Cohen—who was a very important, influential figure. His view, as you point out in the book, is that socialism is so morally compelling that whatever obstacles there are between us and the socialist future, we've got to figure out a way around them because the moral argument is just so compelling. But if it turns out that the moral argument is not so compelling and that the difficulties are simply enormous, then the Cohen argument collapses. So can we go through those two ways of looking at it?

OTTESON: Sure, absolutely, and you're right about Cohen. I think we can say, or we might be at least be willing to entertain, that there are many systems of morality that when they are expressed in their ideal form are very difficult, maybe even impossible to fully achieve. And this is true for lots of moral ideals; for the Kantian categorical imperative, even Christians who wear

bracelets on their wrists that say WWJD, What Would Jesus Do. Well, they don't think that they themselves are going to be able to fully implement Jesus' life and their own, because if you're a Christian, you think that Jesus was also divine. But nevertheless, I see this as an ideal towards which they can strive and ever more closely approximate. And I think a lot of socialist-inclined thinkers, including Cohen, see the socialist ideal as being something similar. So maybe we can't perfectly, fully realize it in the messy world of human affairs, but we can get closer and closer, and maybe even if it involves tremendous sacrifice and tremendous cost, which I think it does. Some of them are not moved by that because they think the moral values are so important.

And to the other part of your question, the moral values that socialists typically aim at are equality first and foremost. Cohen also adds community, and then we might also add something like fairness. So their idea is that in order to have a world of equality, of robust community and of actual fairness, we need to have some centralized managing of the resources that we have available to us, including human resources.

WOODS: In the book, as you say, you go after the subject of socialism in practice and then socialism in principle, in theory. So we may as well take it in order here, although, I'd like to start with a later one of your problems because it's such an easy one for people to grasp. You call it the Day Two problem. Explain that.

OTTESON: Right, well, so suppose we settle on some ideal distribution of resources, so labor resources, natural resources, and other things, and if we adopt either the socialist or quasi-socialist view where equality, let's say, is an important distribution—whatever that distribution is. In addition to settling on that, we then are able somehow to effectuate that distribution in resources today. We get it right. We get all the resources, let's say, equally. For ease of argument, we distribute them equally. The question then becomes, well, what do we do tomorrow, on day two, as it were? The reason that's a problem and the question that has to be addressed is that even after you've made your ideal distribution of resources, the minute you stop monitoring and forcing people, they are going to begin to exchange, innovate, associate, trade, gift. They are going to begin doing all of the gloriously unpredictable things that free people do, which means that by day two, the distribution of resources is totally different from what it was on day one. The day two question then is, well, what do we do then? Are we going to have to effectuate yet another mandatory distribution of resources? Once you start thinking about what that would entail, you realize that that becomes and extremely costly, even putting the moral issue aside, an extremely costly thing to do. You're going to have to have monitoring agencies, you're going to have to have redistributive agencies, you're going to have to have collection agencies, and all of this is going to have to be going on real time, all of the time, because what people do is they find new and unpredictable ways to associate with one another. They look for new and unpredictable ways to innovate. And what will inevitably happen is that their patterns of association and innovation, etc., will not match whatever you had conceived of in theory in advance. So you're faced with having to make a second distribution on day two, and then this just continues day after day.

WOODS: Let's go into another one of the arguments that socialists, or socialist-inclined people, as you say, make, and that involves the subject of community. We hear this all the time, that capitalism is inimical to community. One reason for this is that capitalism, they take for granted, gives rise to intolerable levels of inequality, and these levels of inequality inhibit the growth of genuine, authentic, viable human communities. You take this head on.

OTTESON: Yeah, and I think you have to, because that's one of the key claims that socialists make on the behalf of their view of political economy. There are lots of things to say about it. I will just say one or two. One of them is, which I think is underestimated, is that it's very difficult to actually figure out or come to any consensus about what a real or authentic community is. Perhaps the key point is not that capitalism leads to no community, but that it leads to or allows new, unpredictable innovative kinds of communities. So what people can do under capitalism is they can choose, well, do I want to be part of this particular kind of community, perhaps the one I was born into, the one that happens to be in place in my small, local area? What you're enabled to do is to remove yourself from a community like that if you want and enter another one. And part of the argument I make in the book is that when people are allowed to voluntarily dissociate themselves from communities they don't want to be a part of and then re-associate themselves with communities they do want to be a part of, I think that's actually a more robust sense of community, because in that case you are now choosing what you want to be a part of, and you have a vested interest, and this is now connected with something that's important to you. So what happens under capitalism, it's true that many kinds of communities, including some that have existed for long periods of time, will fade away. Others will come into existence, and we'll replace them, and that's part of [CHECK] Schumpeter's term. That's part of the creative destruction not just of a market economy, but also of the dynamic and evolving nature of human society.

WOODS: On page 52 of your book, you start talking about luck egalitarianism, which is a subject that I suppose we find in Rawls. We find it in Ronald Dworkin, I suppose. I am not a professional in this area, but I just know what I've read. Explain what luck egalitarianism is. It seems superficially plausible that certain things that just fell into your lap, so to speak, you know, favorable family conditions—Bryan Caplan notwithstanding—all these other material advantages you may have. You didn't deserve them in a certain sense in the sense the same way that I might deserve to win the trophy for winning the spelling bee—my daughter was just in the county spelling bee this week, and that's on my mind—but that, on the other hand, if I think about all the natural endowments that I enjoy, or environmental endowments, I don't deserve them. So maybe it is true that those special advantages I get ought to be either taken from me or dissipated in some way. What's wrong with that?

OTTESON: Well, I think it is—you're right that it's at least an initially plausible position. So if some proportion of the relative success or failure any of us experiences in life is due to factors that are outside of our control, then that at least gives a toe hold for someone arguing, well, then maybe we should redistribute some of the relative success to some of the relative failure

because you can't claim to have deserved it. Now, if other people provided things for you, like schooling, or you happen to have good parents as opposed to bad parents, etc., and I think a lot of socialist-inclined policy today has something of that view, sort of a fairness view, that well, sometimes it's not fair if life deals you a bad hand—there are, again, many things to say about this, but I think one of the most important things to say is that it's just not quite as dispositive as people think.

There are two reasons to think that. First of all, luck, both good and bad, tends to be distributed relatively randomly across society. All of us have experienced good luck in our lives. All of us have experienced bad luck in our lives. So it's not that it doesn't affect our lives, but there doesn't tend to be one life that has only good luck or another life that has only bad luck. But even more important than that, I think, is that it turns out that what has the largest effect on whether a person has a relatively successful life or a relatively unsuccessful life is what you do with the luck. It's really the effort—energy—that you put into seizing opportunities.

So we don't all have the same opportunities. That's true. We have different signatures of opportunities and possibilities for us. But what happens, what you do with whatever opportunities you get, that really is what determines whether your life is going to be successful or not. Now, there's one other part of that argument that I would make, and that is even if we accepted the egalitarian view that we should redistribute some of the relative success to some of the relative failure, you have to, as a practical matter, ask yourself, well, what would actually be involved in attempting to do that? Imagine all of the people you would have to employ whose job it would now be to try to parcel out what proportion of your success in life is really due to your own efforts and opposed to just having gotten lucky and then making distributions on the basis of their judgments about the relative role of luck. Just think about the enormous bureaucratic apparatus that that would give rise to and that would be required. And also think about the uncertainty that that would introduce in your life. If you didn't know whether the putative luck redistribution board, if you didn't know exactly what proportion of the proceeds of your efforts they would judge to be deserved by you, that would have a very strong negative and downward disincentive for you to actually engage in productive activity. So what we might end up doing is choking the goose that's going to lay the golden egg, because it would give rise to all sorts of special pleading and just give a disincentive, especially at the margins, for people to continue to work hard and produce more.

WOODS: I can recall Cohen making the argument, and I hope I am remembering it correctly, but he really did think that we could somehow educate people to behave differently and to be incited to do things with different kinds of incentives from the kinds of incentives that capitalist society has taught us. Am I being unfair to him?

OTTESON: No, I think there is a strain of that, and it's not just in Cohen, but I think much of the advocacy of what I call socialist-inclined policy, things that, well, when we describe human behavior now as being motivated in part at least in strong part by self-interest maybe with limited altruism, that that's actually an effect of institutions we have rather than being

somehow natural to human beings. And so if we had a different set of institutions, maybe people would be motivated differently. Now, it's very difficult—so I think you're right to pick up on that strain—to know how to assess that because it's a largely unfalsifiable claim. In other words, if human beings were fundamentally different from the way they appear now, maybe a different set of social institutions would be appropriate to them, and I guess my inclination is to say, well, I suppose that's true.

On the other hand, the same political economy is going to have to address the way human beings actually are and the way they appear now. Maybe in some future iteration of evolution they'll be different, but at the moment, they do in fact tend to be self-interested with limited benevolence or limited altruism. And the other aspect of that is that they also have pretty significant limits on the knowledge they have. So this goes back to the figure you mentioned earlier, Mises, and also, of course, Hayek. It's very difficult for any one of us to know, for me to know or for you to know very much beyond our own experience. So even if you say to us, well, you really ought to be acting in such a way that you're benefiting all of humankind or your entire community, well, for any actual individual, it's almost impossible to know what I could do that would actually benefit all of humankind or my entire community. What I can know or at least make relatively good guesses about is how I can improve my own life right now or I can improve the life of my family or the local community that I am actually in touch with and that I actually work with. There I can make some headway. Asking me to think on much larger scale is asking you to do something that, at least as human beings are constructed now, is well-nigh impossible.

WOODS: What do you mean when you refer to "socialism's great mistake" in the singular?

OTTESON: Socialism's great mistake—in that part of my book, I am talking specifically about a moral mistake, and what I mean there is that socialist-inclined policy tends to view human beings, fundamentally anyway, not as individuals, but as members of groups, members of classes. So it talks about people being the rich or the poor or the capitalists or the bourgeoisie or the proletariat rather than seeing them as unique and irreplaceable individuals. That, I think, is not just a mistake that you might make for economic calculation, but I think it's a moral mistake. One of the great moral achievements, especially of the West, has been exactly the rejection of that view of human beings that more or less anybody in a particular group or anybody in a particular class, that they are more or less interchangeable. You can take one out without great sacrifice—replace it with somebody else. But I think one of our great moral achievements has been to say, no, that's not true. Each human being is not only unique, but is irreplaceable and precious, and so you cannot take one away without significant and substantial loss, and there is no human being that could ever replace the position that you or I or any other individual takes. And the great moral mistake, I think, that socialism makes is to think that we can arrange the classes and the groups in society as if people in them were all more or less the same when, in fact, they aren't.

WOODS: Jim, let me raise an objection that if you haven't received yet, you are going to hear at one time or another, and that is: this is a whole lot of highfalutin' philosophical mumbo-jumbo. The fact is, we have socialist-inclined policy already in the Scandinavian countries, and it works quite well. So who cares that Jim Otteson doesn't like socialism? It's alive and well.

OTTESON: Yeah, and that's an objection—I have heard that. And I think you have to hit that head on just like some of the other objections. Fortunately, I think we can actually make some headway there. So if you look now—you look at the countries in the world today—you can rank them on the relative degree to which they are capitalist inclined versus socialist inclined. So it's not an all-or-nothing thing. It's not all capitalist or all socialist, but you can rank them along that continuum, and then you can score them on how well the citizens in those countries are able to achieve various metrics of human well-being, everything from longevity—so not just wealth—but longevity, environmental protection, literacy rates, U.N. Development Index. When you start comparing the ranking of countries according to how capitalist or socialist they are against those metrics, what you find is that almost with each step a country takes away from more capitalist-inclined toward more socialist inclined, the lower they are going to rank on almost all of those indices.

So the conclusion that that leads us to is that although you can certainly have prosperity with some mixture of socialist-inclined policy and capitalist-inclined policy, you're going to have a lot more prosperity if the balance is tipped in favor of capitalist-inclined policy, and the further away you get from capitalist-inclined policy, the more you are endangering the ability of your citizens to achieve prosperity. And by the way, I think this is also reflected, perhaps somewhat surprisingly, in those Scandinavian countries. So if you take Sweden as an example, which is an example that many people bring up, Sweden is a very small, homogeneous country. People look a lot alike. They have the same history. They have close to the same religious beliefs. If you have a very small community, then people can tend to be much more willing to make sacrifices for one another, than if you have a much larger community like the United States.

So whereas Sweden has only several million people in it, the United States has 330 million, and it's filled with people who don't share the same religious outlook. They don't all look the same. They don't all have the same view about what a good life is. So it's much more difficult to translate what might look plausible on a very small scale to a much larger scale. And by the way, Tom, you might know this. Even Sweden has been in the last—about the last nearly now 10 years—has been rolling back a lot of its welfare benefits and becoming a much more free, market-oriented system of political economy in part because in response to not only the difficulty of sustaining the very large and generous welfare state they had, but also as their community is now diversifying. They are getting a lot of immigration, and suddenly the feeling of unity and mutual sacrifice isn't such a compelling argument to them anymore.

WOODS: Well, by an interesting coincidence it so happens that tomorrow I am expecting to have on the program a guest from Sweden, and I am going to ask of course all these sorts of questions and specifically what's going on these days—what's been happening right now. So I'll

definitely take up these issues with him. Now, the book, of course, will be a hit with my listeners—*The End of Socialism* by James R. Otteson, published by Cambridge University Press, which is a wonderful thing for you. I am thrilled to see that. Is there anything I can—other than on the show notes page tomwoods.com/337 where I will link to this book—is there any place else you'd like me to link to related to what you're doing?

OTTESON: Absolutely. So as you know, I think, Tom, I am the director of—I teach at Wake Forest University, and I am the director of something called the Center for the Study of Capitalism. The website for that, which is just capitalism.wfu.edu, has an awful lot of stuff that's connected with the work that I am doing and the work that my center is doing, including extending some of the arguments of that book in various ways, and not least of which is figuring out how we can introduce some of the conversations and discussions that you and I have talked about today and that are in my book, into the classroom. So I would be happy to have your listeners take a look at that and then also reach out to me directly if they have thoughts or want to continue the conversation.